

CITY OF NEWTON, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PREPARED BY
CITY OF NEWTON FINANCE DEPARTMENT



CITY OF NEWTON, NORTH CAROLINA

Comprehensive Annual Financial Report

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INTRODUCTORY SECTION



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City of Newton

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Letter of Transmittal

The Honorable Mayor, Members of the
Board of Aldermen and the Citizens of the
City of Newton, North Carolina

September 10, 2002

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Newton for the fiscal year ended June 30, 2002. The financial statements and supplemental schedules contained herein have been audited by the independent certified public accounting firm of Lowdermilk Church & Co., L.L.P., and their unqualified opinion is included in the financial section of this report. However, responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the information in this report is accurate in all material respects and presents fairly the financial position and results of operation of the City's various funds and account groups. We have included all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs.

This report is divided into four sections: the Introductory, Financial, Statistical and Compliance sections.

- * The Introductory Section contains this letter of transmittal and information about the organization and principal officers of the City of Newton.
- * The Financial Section is composed of the independent auditors' report, the City's combined financial statements, the "Notes to the General Purpose Financial Statements," and combining statements with detailed individual fund statements. The auditors' report, combining statements, and the notes are often issued separately for securities offerings or widespread distributions and are frequently referred to as "lifiable" general purpose financial statements (GPFS).
- * The Statistical Section (unaudited) contains fiscal and economic data designed to provide a more thorough understanding of the City and its financial operations. Many tables in this section present financial data for the past ten years.
- * The last section, the Compliance Section, presents information required by the Single Audit Act, which will be discussed in a later paragraph.

This report covers all funds and account groups that are controlled by, or are dependent upon the City of Newton. The City provides a full range of services for its citizens, including planning and zoning, solid waste collection, street maintenance, parks and recreation activities, and police and fire protection. In addition to these general government activities, the City provides and maintains water, sewer and electrical utilities for the benefit of its citizens. These utilities are included in the reporting entity.

The City also extends financial support to certain boards, agencies, and commissions to assist in their efforts in serving citizens. Among these are the Catawba County Arts Council, Catawba County Library, and the Piedmont Wagon, a transportation system serving the cities of Hickory, Conover and Newton. Because City allocations do not constitute a major portion of their revenue, and because the City has no authority to designate their management, none of these organizations have been included in this report.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments. Information related to this single audit, including the schedule of Expenditures of Federal and State Awards, findings and questioned costs, corrective action plan, summary schedule of prior year audit findings, and auditors' report on internal control over financial reporting and compliance with applicable laws and regulations, are included in the Compliance Section of this report.

DESCRIPTION OF THE CITY

The City of Newton, founded in 1843 and incorporated in 1855, is located in Catawba County in the western part of the Piedmont area of North Carolina, 39 miles northwest of Charlotte and 10 miles southeast of Hickory. The City covers approximately twelve square miles and has a population of 12,978. Newton serves as the county seat of Catawba County. The City has a council/manager form of government. The six members of the Board of Aldermen are elected on a nonpartisan basis to serve staggered four-year terms. The Mayor serves a two-year term.

ECONOMIC CONDITIONS AND OUTLOOK

The City of Newton continues to benefit from its proximity to the Charlotte and Hickory Metropolitan Areas. The economy of the area has remained stable for many years due to the vast array of manufacturing and service-oriented employers. This diversity and quantity of large and small employers had, until the latter part of the year 2000, provided the area typically with one of the lowest unemployment rates in the State.

As a result of the recent downturn in the economy, several industries have discontinued operations in Newton. In some ways the low unemployment rate was a sign of a very strong economy, but conversely, it also made it very difficult to recruit new employers for the area. Now with the higher unemployment rate, the County and City's efforts at business recruitment should become easier.

The higher unemployment rate, when added to the competitive advantages of the area, indicate a bright future for a continually diversified employment base. Some examples of this are the construction of a new 280,000 square foot plant to manufacture satellite dishes for Prodelin Corporation, a division of Tri-Point Global, a multi-national corporation. In addition, a local entrepreneur has also begun the operation of a manufacturing plant, Carolina Peletizing. The City recently announced a new industry - Harvest States Food who will construct a 115,000 square foot facility and employ 70 people initially, with plans to expand an additional 40,000 square feet in the near future. The City is currently on a short list with German and Japanese companies looking to locate manufacturing facilities in the United States.

The City has a significant advantage in the future for industry recruitment and retention, specifically for a 500 to 1,000 acre business and industrial park located off NC Hwy 10 West at the US Hwy 321 Freeway Intersection. The City currently has large water, sewer, and electric lines to the area making it available with total utilities for development. The City is currently controlling options on approximately 500 acres of property on NC 10 West near the US 321 Freeway with the intent to partner with a developer to provide a business park where new businesses, industries and ultimately people will locate, creating a tax base, utility revenue growth while at the same time, creating an exciting new area for the city to grow into.

Historically, Catawba County's unemployment rate is lower than the State and National rate. Employment in the County is primarily in the textile, furniture, and cable industries. Additionally, the mild southern climate and natural beauty of the area continue to draw new residents and business investment to the Piedmont, Foothills and Mountain Areas of North Carolina. Newton, artistically described as being nestled in midst of perfect climate, natural beauty, foothills and mountains, should mark a revival of interest for new industries to locate in this area. Further, the Catawba County Economic Development Cooperation and the City's Economic Development efforts have been very aggressive in the recruitment of national and international business investment and assisting existing industries with expansion and retention efforts.

INC Magazine has twice named the Hickory, North Carolina Metropolitan Statistical Area as one of the top entrepreneur areas in America in both traditional industries and high tech, which makes relocating to the area a wise choice. Nation's Business magazine identified the Hickory-Metro as the "7th Best Entrepreneur Hot Spot". Industry Week rated the Hickory-Metro as the "8th Ranked World Class Community", due to outstanding cooperation between industry, government, and educational institutions. It focused on the strong public/private partnerships that ensure that the business climate is appealing. Reader's Digest named the Hickory-Metro as the 10th best place to raise a family and was second only to Sheboygan, Wisconsin for its affordable cost of living. Making the "best list" in one these highly respected national publications is a major accomplishment. Making the "best list" in all three is a unique honor that no other US Metro can claim. Reports in other publications in the past including Government Finance Review, Site Selection Magazine, and Outlook Americas Magazine have recognized North Carolina's prominence over the years as one of the top ranked industrial expansion sites in the United States, citing more new plants and expansions than any other State for several years. Newton is mentioned among the top five cities for new plants and expansions.

The growth for Catawba County and the City of Newton has been strong, and is expected to continue with local companies expanding as well as new industries locating in the area. During the fiscal year, the City issued zoning permits totaling \$10,534,606 for residential, commercial, and industrial construction for the City and its planning jurisdiction. This growth trend is expected to escalate as we proceed in the 21st Century.

MAJOR INITIATIVES

During fiscal year 2001, the City completed six (6) major capital improvements at to the City's water sanitary sewer and electric systems at a cost of \$3,278,483. This consisted of constructing water and sewer mains and lines, extending electric distribution lines and acquiring electric peak shaving generators. These projects will improve public health by extending water and sewer to annexed areas of the City, increasing public safety through enhanced fire protection through the provision of fire hydrants, increasing electric customer base and positive positioning for electric deregulation. Further, all projects enhance the City's economic development growth opportunities. The City will serve water, sewer and/or electric utilities to approximately 261 new customers as a result of the completion of these projects.

Additionally, in fiscal year 2001, the Newton Board of Aldermen approved funding to implement an aggressive industry recruitment and retention program designed to off-set the loss of jobs in the telecom and textile industries. This program contains standard economic incentive grant programs, along with proactive and innovative land grants/industrial performance programs and a continuous power (generation) program designed for industries which rely on electrical services in their manufacturing process. This program has been successful in adding two new industries to the Danner Industrial Park. Prodelin Corporation, a division of Tri-Point-Global, completed a \$20 million facility which will eventually employ up to 180 people. Prodelin is one of the country's largest manufacturer of satellite dishes and other communication devices. The second industry, Harvest States Food Corporation, a division of Centrex, Inc. generated \$9 billion in revenues in 2001. They will construct an \$18 million plant on a 12 acre tract of land paid for by the City of Newton.

Also, as part of this plan, the City of Newton is developing a public/private venture which will lead to the development of a 500 to 800 acre business park on a new major four-lane highway, US 321 By-Pass. This highway connects two major interstate highways, Interstate 85, a major north/south east coast highway and Interstate 40 which connects the south/central United States to the southwestern United States. This park is being marketed as a "Premium Power Park". The City of Newton will construct a large generator capable of providing emergency standby power to our customers. This generator would provide continuous power to the Park in the event of a power outage.

In order to provide the necessary municipal services, due to rapid growth, the City has recently completed numerous plans, studies and design of facilities and infrastructure necessary to maintain service levels. These projects are contained in the City's strategic financial plan for capital improvements as follows:

- C \$4.6 million upgrade of raw water facilities
- C \$1.9 million upgrade for the wastewater treatment plant
- C \$1.8 million fire station #3
- C \$750,000 new cemetery

Other projects not funded at this time include:

- C \$1.8 million City Hall/Police Department remodeling/expansion
- C \$1.9 million Jacobs Fork Recreational Park
- C \$2.4 million street/drainage projects

The City of Newton is a member of a regional transportation planning group, Hickory - Newton - Conover Metropolitan Planning Organization (MPO), and has recently achieved several top priority thoroughfares to be included in the statewide TIP project priority list. Among those are the construction of US Highway 321 Freeway and the eastern portion of the Newton Conover loop. Through participation in this organization and its lobbying efforts, the City will realize the construction of many new roads and increased opportunities provided by these thoroughfares.

North Carolina is working to join twenty-five (25) other states that have moved forward with plans to deregulate the electric industry, but exactly how it will impact "electric cities" like Newton remains uncertain. In 1997, the General Assembly appointed a Study Commission on the Future of Electric Service in North Carolina. The Study Commission submitted its report to the 2000 General Assembly on May 16, 2000. That report recommended, in addition to other issues, retail choice for all customers by January 1, 2006. In January 2001, the Study Commission decided not to present legislation to the General Assembly in 2001. The Study Commission is continuing to study the issue of electric deregulation. The City cannot predict the results of the study or the recommendations made by the Study Commission, or whether the recommendations to the General Assembly will be enacted into law.

Ongoing efforts to place the City in a competitive position in a deregulated environment include, but are not limited to, utilization of a Distribution System Benefits Model, and installation of peak shaving generators. The Distribution System Benefits Model is a derivative of a tool designed by R.W. Beck, Inc. for use by municipal electric distribution systems in evaluating financial and other impacts of retaining or selling their electric distribution systems in response to the plan to restructure the electric industry and resolve stranded cost issues.

The objective of industry restructuring is to create competition among suppliers of electricity as a means of controlling price levels and assuring that service levels meet consumer expectations. To prepare for this the City has installed peak shaving generators at five of its largest industrial customers and is providing these types of generators as an incentive for new industries. These generators will help the City in its retention efforts and allow the City to offer more competitive pricing.

Other initiatives which are ongoing are a recycling program, extension of water and sewer lines, both on its own and in conjunction with Catawba County, installation of load management switches on homes and businesses and installation of security lighting throughout the City on private property. This will help to deter crime and to increase base load consumption of electricity and provide economic development and load management rate riders to expanding and new industry. In addition, the City provides funding for the Piedmont Wagon, which furnishes public transportation to citizens of Newton and other areas of Catawba County.

FINANCIAL INFORMATION

Basis of Accounting

The City's accounting records for governmental funds are maintained on the modified accrual basis, whereby revenues are recognized when measurable and available, and expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on general long-term debt. Proprietary revenues and expenses are recognized on the accrual basis, whereby revenues are recognized in the accounting period in which they are earned and become measurable and, expenses are recognized in the period they are incurred, if measurable.

Fund Accounting

Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or alliances, and changes therein, which are segregated for the purpose of carrying on specific activities or obtaining certain objectives in accordance with special regulations, restrictions or limitations. Thus, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of other funds and account groups.

Fund and Account Groups Categories

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities, except those accounted for in the proprietary funds, are accounted for through governmental funds. The governmental fund measurement focus is based upon determination of financial position and changes in financial position (sources, usages and balances of financial resources), rather than upon net income determination. The statement of revenues, expenditures and changes in fund balances is the primary governmental fund operating statement. It may be supported or supplemented by more detailed schedules of revenues, expenditures, transfers and other changes in fund balances.

Proprietary funds are used to account for a government's ongoing organizations and activities which are similar to those found in the private sector. All assets, liabilities, equity, revenues, expenses and transfers relating to the City's business and quasi-business activities (where net income and capital maintenance are measured) are accounted for through proprietary funds. The generally accepted accounting principles here are those applicable to similar businesses in the private sector; and the measurement focus is based upon determination of net income, financial position and cash flows.

Fiduciary funds are used to account for assets held by governmental units in a trustee's capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

In addition to these three fund types is a fourth category of accounting entity, the account groups. Account groups are used to establish accounting control and accountability for the City's general fixed assets and the unmatured principal of the general long-term debt. These two account groups do not, however, account for any fixed assets or unmatured principal of any long-term debt for any proprietary fund.

Internal Controls

In developing and evaluating the City's accounting system, consideration has been given to the adequacy of the internal accounting functions. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of federal and State financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management. As a part of the City's single audit, described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to expenditures of federal and State financial awards, as well as to determine that the City has complied with applicable laws and regulations.

Budgetary Controls

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the General Fund and all proprietary funds are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Fund and the Special Revenue Fund. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is maintained at the departmental level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbranced amounts lapse at year end. However, encumbrances are generally reappropriated as part of the following year's budget.

Financial Management

Newton's financial management program continued to provide citizens of the City with a threefold approach to enhance its excellent financial position:

- (1) Investing all available funds not needed each day in order to maximize earnings.
- (2) Allocating City resources only to program areas that meet community needs.
- (3) Closely monitoring these programs to ensure they are carried out within authorized levels.

This financial management program allowed the City to achieve its goal of expanded and improved services to the citizens of the City. Additionally, the City maintained its bond rating of "A2" by Moodys Investment Service, Inc.

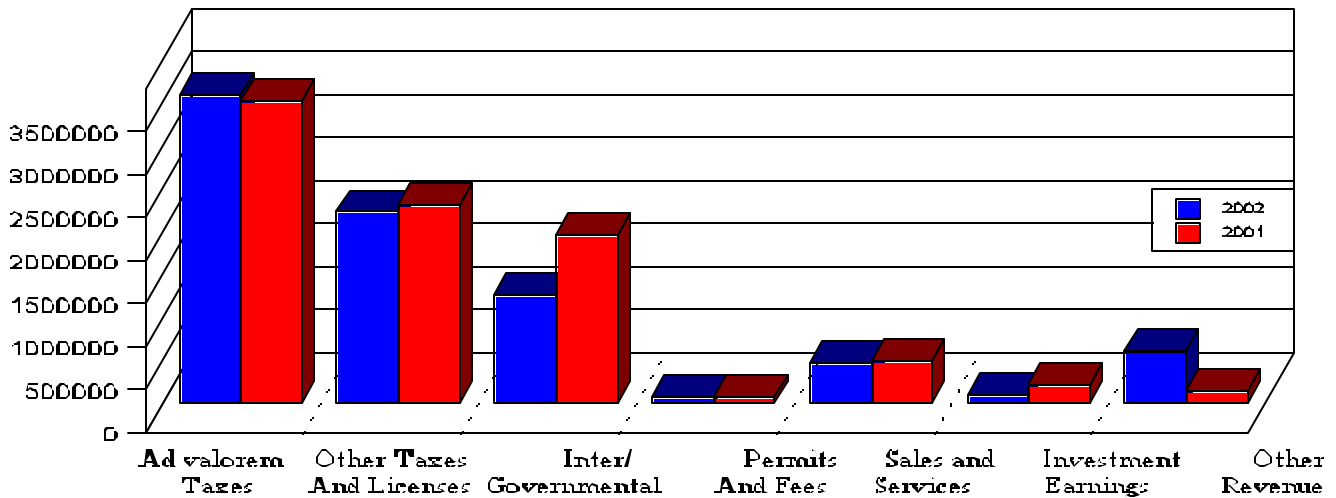
and “A” by Standard & Poors Corp. The rating is a reflection of the City's continued sound financial condition.

Revenues - General Fund

General fund revenues decreased during fiscal year 2002 from fiscal year 2001 by \$386,985 (4.45%), as follows:

	2002 Percent of Total	Fiscal Year Ended June 30,		Increase (Decrease)
		<u>2002</u>	<u>2001</u>	
Ad valorem taxes	43.07	\$3,581,664	\$3,511,413	\$ 70,251
Other taxes and licenses	26.78	2,226,856	2,310,695	(83,839)
Intergovernmental	15.20	1,264,185	1,950,598	(686,413)
Permits and fees	0.94	78,521	80,322	(1,801)
Sales and services	5.58	464,119	498,049	(33,930)
Investment earnings	1.19	99,184	207,878	(108,694)
Other revenues	<u>7.23</u>	<u>600,942</u>	<u>143,501</u>	<u>457,441</u>
Total	<u>100.00</u>	<u>\$8,315,472</u>	<u>\$8,702,456</u>	<u>\$(386,985)</u>

(Derived from Exhibit 3)



Ad valorem taxes (43.07%) and intergovernmental revenues (15.20%) continue to be major revenue sources comprising 58.27% of total revenues for the City.

The property tax rate remained at \$.47 per \$100 assessed valuation. Overall, property tax revenues increased \$70,251 (2.00%).

	2002 Percent of Total	Fiscal Year Ended June 30,		Increase (Decrease)
		<u>2002</u>	<u>2001</u>	
Real property	70.31	\$550,863,867	\$540,042,867	\$10,821,000
Personal property	27.44	215,025,057	210,526,662	4,498,395
State certifications	2.70	21,128,333	19,299,454	1,828,879
Less elderly exemptions	<u>(0.45)</u>	<u>(3,524,030)</u>	<u>(3,429,630)</u>	<u>(94,400)</u>
Total assessed valuation	<u>100.00</u>	<u>\$783,493,227</u>	<u>\$766,439,354</u>	<u>\$17,053,874</u>

City collections again reflect the trend of a high percentage of current tax collected as shown in the schedule below. Since the City has contracted with Catawba County to handle its tax billings and collections, this trend has continued. The difference in percentages between the two columns represents the collection of past due taxes. This collection effort continues for a ten-year period after which any uncollected amount is written off. This year \$2,375 was written off.

<u>Fiscal Year</u>	<u>Tax Levy</u>	<u>Percent Collected in Year of Levy</u>	<u>Percent of Total to Tax Levy</u>
2002	\$3,646,444	95.79	98.00
2001	\$3,568,203	96.11	98.59

Intergovernmental revenues decreased by 35.19% or \$686,413 due to the Governor withholding Local Government Reimbursements (for local taxes previously repealed), State-Collected Local Revenues (Utility Taxes - Electric, Natural Gas and Final Quarter of Telephone), Beer and Wine Taxes, and Homestead Exemption Reimbursement.

Other taxes and licenses comprises 26.78% of the City's governmental revenues. This year, sales tax revenue decreased \$138,524 (6.71%) over last year. This decrease is primarily attributable to the overall economic conditions.

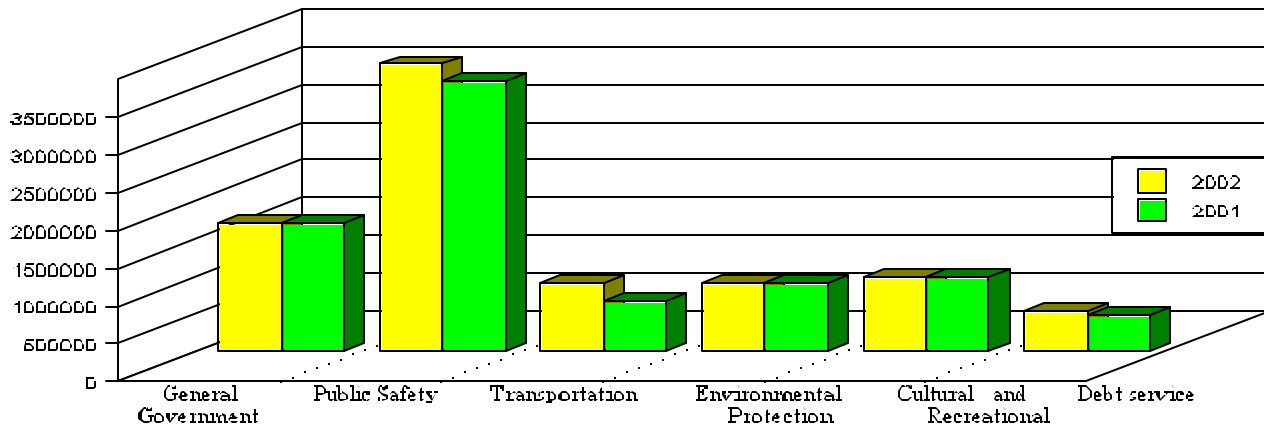
Sales and services decreased \$33,930 (6.81%) due to a decrease in recreation fees and concessions.

Expenditures - General Fund

General fund expenditures increased \$523,658 (6.35%) from those of last year. Total expenditures were \$8,776,641 or \$675,909 less than budgeted. A brief analysis of major changes together with explanatory factors follows:

Function	2002 Percent of Total	Fiscal Year Ended June 30,		Increase (Decrease)
		2002	2001	
General government	19.23	\$1,688,026	\$1,687,240	\$ 786
Public safety	43.19	3,790,221	3,562,055	228,166
Transportation	10.16	891,614	660,139	231,475
Environmental protection	10.30	903,826	896,416	7,410
Cultural and recreational	11.07	971,157	983,259	(12,102)
Debt service	6.06	531,796	463,872	67,924
Total	<u>100.00</u>	<u>\$8,776,641</u>	<u>\$8,252,982</u>	<u>\$523,658</u>

(Derived from Exhibit 3).



General government expenditures increased only \$786 (0.05%). This is attributable to good oversight.

Public safety expenditures increased \$228,166 (6.41%) from last year. This is due to the City's fire department merging with the Startown Volunteer Fire Department and the acquisition of all their assets. If this merger had not occurred the public safety expenditures would have decreased by 3.88% or \$138,054.

Transportation increased by \$231,475 due to completion of significant street improvements which were funded with Powell Bill fund balance.

The \$12,102 (1.23%) decrease in cultural and recreational expenditures is primarily due to a decrease in capital outlay.

The \$67,924 (14.64%) increase in debt service is primarily attributable to additional debt principal requirements.

Fund Balance - General Fund

The fund balance of the General Fund at June 30, 2002, of \$2,854,291 is \$719,216 less than the June 30, 2001 balance. The decrease in fund balance is a result of the excess of expenditures and other financing uses, over revenues and other financing sources. The classification of fund balance at June 30, 2002 and 2001 is shown below:

	Fiscal Year Ended June 30,		Increase (Decrease)
	<u>2002</u>	<u>2001</u>	
Reserved by State statute	\$ 141,653	\$ 197,570	\$ (55,917)
Reserved for inventories	26,790	37,437	(10,647)
Reserved for encumbrances	91,183	283,050	(191,867)
Reserved for streets - Powell Bill	194,755	429,764	(235,009)
Unreserved (available for appropriation):			
Reserved for open space fees	11,321	8,375	2,946
Designated for subsequent year	426,150	-	426,150
Undesignated	<u>1,962,439</u>	<u>2,617,311</u>	<u>(654,872)</u>
Total fund balance	<u><u>\$2,854,291</u></u>	<u><u>\$3,573,507</u></u>	<u><u>\$ (719,216)</u></u>

(Derived from Exhibit B-1).

Capital Projects Fund

Currently, the City has two ongoing capital projects, those being the Downtown Facade Improvements, and US 321 Business Sidewalk. The following schedule presents a comparative summary of revenues, expenditures and changes in fund balances.

	Fiscal Year Ended June 30,			
	<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
Capital Projects Revenues	<u>\$ -</u>	<u>100.00</u>	<u>\$ -</u>	<u>100.00</u>
Expenditures:				
Downtown Facade Improvement Capital Project Fund	\$ -	-	\$ 5,505	96.49
US 321 Business Sidewalk Capital Project	10,626	100.00	-	-
West 1 st Street	<u>-</u>	<u>-</u>	<u>200</u>	<u>3.51</u>
Total expenditures	<u>10,626</u>	<u>100.00</u>	<u>5,705</u>	<u>100.00</u>
Revenues over (under) expenditures	(10,626)		(5,705)	
Other financing sources	<u>-</u>		<u>19,208</u>	
Revenues and other financing sources over (under) expenditures and other financing uses	(10,626)		13,503	
Fund balance (deficit), beginning of year	<u>23,448</u>		<u>9,945</u>	
Fund balance (deficit), end of year	<u><u>\$12,822</u></u>		<u><u>\$23,448</u></u>	

(Derived from Exhibit D-2).

Revenues - Enterprise Funds

Enterprise funds revenues increased \$1,271,216 (9.74%) from the previous fiscal year. As in previous years, the largest revenue source of the City is the Electric Fund (\$8,490,493 or 59.29% of enterprise funds revenues). The following schedule shows the revenues generated by each fund as compared to the prior fiscal year.

Source	2002 Percent of Total	Fiscal Year Ended June 30,		Increase (Decrease)
		2002	2001	
Water and Wastewater:				
Charges for services	26.01	\$ 3,724,616	\$ 3,699,583	\$ 25,033
Other revenues	3.34	478,863	511,347	(32,484)
Transfers	4.34	622,093	602,400	19,693
Capital contribution	7.02	1,004,997	-	1,004,997
	<u>40.71</u>	<u>5,830,569</u>	<u>4,813,330</u>	<u>1,017,239</u>
Electric:				
Charges for services	55.21	7,907,121	7,521,142	385,979
Other revenues	4.07	583,372	715,374	(132,002)
	<u>59.29</u>	<u>8,490,493</u>	<u>8,236,516</u>	<u>253,977</u>
Total	<u>100.00</u>	<u>\$14,321,062</u>	<u>\$13,049,846</u>	<u>\$1,271,216</u>

(Derived from Exhibit E-2).

Water and wastewater charges and electric charges remained stable in 2002 as compared to those in 2001 and therefore, the increases or decreases in charges for services is attributable to changes in volume.

The fluctuations in other revenues in the Electric, Water and Wastewater Funds are primarily due to increases or decreases in investment earnings.

Expenses - Enterprise Funds

The following schedule shows expenses incurred by each fund as compared to the prior fiscal year.

Function	2002 Percent of Total	Fiscal Year Ended June 30,		Increase (Decrease)
		2002	2001	
Water and Wastewater:				
Operating expenses	24.44	\$ 3,152,949	\$ 3,336,881	\$(183,932)
Depreciation	7.03	906,522	1,285,287	(378,765)
Interest expense	2.94	378,782	405,008	(26,226)
Transfers	0.00	-	43,000	(43,000)
	<u>34.40</u>	<u>4,438,253</u>	<u>5,070,176</u>	<u>(631,923)</u>
Electric:				
Operating expenses	61.50	7,935,295	7,325,999	609,296
Depreciation	3.19	411,432	380,294	31,138
Interest expense	0.91	118,042	127,361	(9,319)
	<u>65.60</u>	<u>8,464,769</u>	<u>7,833,654</u>	<u>631,115</u>
Total	<u>100.00</u>	<u>\$12,903,022</u>	<u>\$12,903,830</u>	<u>\$ (808)</u>

(Derived from Exhibit E-2).

The total expenses for proprietary funds decreased \$808 (0.01%) over the previous year. The largest decrease was depreciation of \$378,765 in the Water and Wastewater Fund.

Fund Equity - Enterprise Funds

The enterprise fund experienced an increase in fund equity of \$1,381,961 (5.73%), which is due to net income of \$1,381,961. The following schedule presents a comparative summary of the changes in the enterprise fund equity:

	<u>2002 Percent of Total</u>	<u>Fiscal Year Ended June 30,</u>		<u>Increase (Decrease)</u>
		<u>2002</u>	<u>2001</u>	
Fund Equity - Enterprise:				
Water and Wastewater	75.68	\$19,299,649	\$17,907,332	\$1,392,316
Electric	<u>24.32</u>	<u>6,203,357</u>	<u>6,213,712</u>	<u>(10,355)</u>
Total fund equity	<u>100.00</u>	<u>\$25,503,006</u>	<u>\$24,121,044</u>	<u>\$1,381,961</u>

(Derived from Exhibit E-1).

Debt Administration

The City has general obligation bonds outstanding at June 30, 2002 totaling \$4,440,000 which were issued for improvements to the water and sewer systems of the City and for the construction of City recreation facilities.

The North Carolina General Statutes are very specific about the amount of general long-term debt that can be issued by local governments. The statutes state that long-term debt, net of debt issued for enterprise activities, cannot exceed eight percent of the assessed valuation of the governmental unit. The legal debt margin of the City as of June 30, 2002 is \$50,203,360.

Cash Management

The City has established an investment program whereby all available funds are invested daily. All revenue is received and deposited on the same day in one central bank account. Investment earnings this year were \$266,027, a decrease of \$346,075.

Income on investments is an important contributing factor in maintaining a stable tax rate. During the current year, total investment earnings were equal to approximately 3.40 cents of ad valorem tax rate.

Risk Management

The City utilizes commercial insurance carriers to provide coverage for the majority of its insurable risks. Along with this insurance coverage the City has instituted an ongoing safety program with each department establishing a safety manual relating specifically to that department. Each employee is trained on the safety requirements and specific protective requirements for the job. Safety meetings, with specific safety training, are held in every department monthly.

A summary of insurance coverage is presented below. Deductibles on all coverage are minor in relation to the coverage.

Property coverage:	
Buildings	\$34,588,579 blanket per statement of values at replacement cost/agreed value
General Liability:	
Per occurrence	\$1,000,000
With aggregate of	\$2,000,000
Umbrella Liability	\$2,000,000
Automobile Liability:	\$1,000,000
Physical damage	Replacement less \$100 deductible Comprehensive-\$500 deductible on collision
Workers compensation per occurrence	\$1,000,000
Inland Marine:	
Includes all equipment	\$1,171,430 per schedule
Bond/Crime:	
Public employee dishonesty, loss	\$75,000
Forgery and alteration, per loss	\$75,000
Blanket bonding per employee	\$10,000
Individual Position Bond, Finance Director	\$150,000
Law Enforcement Liability	\$2,000,000
Public Officials Liability	\$1,000,000

OTHER INFORMATION

Independent Audit

State statutes require an annual audit by independent certified public accountants. The accounting firm of Lowdermilk Church & Co., L.L.P. was selected by the City's Board of Aldermen. In addition to meeting the requirements set forth in State statutes, the audit also was designed to meet the requirements of Government Auditing Standards, issued by the Comptroller General of the United States; and OMB, Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. The independent auditors' report on the general purpose financial statements and combining and individual fund statements and schedules is included in the Financial Section of this report. The independent auditors' reports related specifically to the single audit are included in the Single Audit Section.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Newton for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2001. This was the seventeenth consecutive year that the City of Newton has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this comprehensive financial report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We would like to express our appreciation to the entire Finance Department, who's long hours and hard work made possible the successful completion of the annual audit.

We also acknowledge the extensive assistance provided by the accounting firm of Lowdermilk Church & Co., L.L.P. and appreciate their assistance in preparing this report.

In closing, we would like to express our appreciation to the Mayor and Board of Aldermen for their leadership, interest, and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Edward F. Burchins
City Manager

James A. Baker
Finance Director

CITY OF NEWTON, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2002

BOARD OF ALDERMEN

WAYNE DELLINGER
Mayor

ROY A. JOHNSON

ALBERT GAITHER

ROBERT A. MULLINAX
Mayor Pro Tem

H. TOM ROWE

REVONDA M. SEITZ

TIMOTHY S. ELLIOTT

CITY ADMINISTRATION

EDWARD F. BURCHINS
City Manager

DAVID A. DIAL
Police Chief

KEVIN L. YODER
Fire Chief

GLENN J. PATTISHALL
Planning Director/Asst. City Manager

JAMES A. BAKER
Finance Director

RITA K. WILLIAMS
City Clerk

MARTIN D. WILSON
Public Works/Utilities Director

TERESA B. LAFFON
Personnel Director

SANDRA A. WATERS
Parks and Recreation Director

LARRY PITTS
City Attorney



FINANCIAL SECTION

- ! Independent Auditors' Report**
 - ! General Purpose Financial Statements**
 - ! Notes to the General Purpose Financial Statements**
 - ! Supplementary Required Financial Data**
 - ! Combining, Individual Fund and Account Group
Statements and Schedules**
-



Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

Independent Auditors' Report

To the Honorable Mayor and
Members of the Board of Aldermen
City of Newton, North Carolina

We have audited the accompanying general purpose financial statements of the City of Newton, North Carolina as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of City of Newton, North Carolina's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Newton, North Carolina as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2002 on our consideration of the City of Newton's, internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City of Newton, North Carolina, taken as a whole. The combining and individual fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information (except those schedules and tables presented in the statistical section as unaudited on which we express no opinion) has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

September 10, 2002



GENERAL PURPOSE FINANCIAL STATEMENTS

The General Purpose Financial Statements present a condensed overview of the financial position and results of operations of the City as a whole. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF NEWTON, NORTH CAROLINA

Exhibit 1

**Combined Balance Sheet - All Fund Types and Account Groups
June 30, 2002
(With Comparative Totals for June 30, 2001)**

	Notes	Governmental			Proprietary		Account Groups		Totals	
		Fund Types			Fund Types				(Memorandum Only)	
		General	Special Revenue	Capital Projects	Enterprise	Internal Service	General Fixed Assets	General Long-term Debt	2002	2001
Assets and Other Debits										
Current assets:										
Cash and cash equivalents	1	\$ 2,894,036	\$ 4,773	\$ 14,062	\$ 4,445,154	\$ 201,095	\$ -	\$ -	\$ 7,559,120	\$ 8,254,381
Cash with administrative agent		-	-	-	-	86,578	-	-	86,578	77,108
Taxes receivable - net	1,4	271,161	-	-	-	-	-	-	271,161	204,106
Accounts receivable - net	1,4	63,243	10,258	-	1,218,837	-	-	-	1,292,338	1,340,601
Interest receivable		7,372	-	-	11,283	509	-	-	19,164	64,553
Due from other governmental agencies		74,556	-	-	-	-	-	-	74,556	82,249
Due from other funds	18	-	-	-	408,768	-	-	-	408,768	402,368
Inventories	1	26,790	-	-	431,518	-	-	-	458,308	541,424
Purchase option		18,500	-	-	-	-	-	-	18,500	-
Restricted cash and cash equivalents	1	-	-	-	59,292	-	-	-	59,292	2,201,578
Noncurrent assets and other debits:										
Investments	1,3	9,759	-	-	-	-	-	-	9,759	10,346
Fixed assets, at cost	1,5	-	-	-	49,699,870	-	13,279,188	-	62,979,058	58,885,184
Accumulated depreciation	1,5	-	-	-	(18,888,068)	-	-	-	(18,888,068)	(17,720,960)
Amounts to be provided for retirement of general long-term debt								2,533,532	2,533,532	2,586,078
Total assets and other debits		<u>\$ 3,365,417</u>	<u>\$ 15,031</u>	<u>\$ 14,062</u>	<u>\$ 37,386,653</u>	<u>\$ 288,181</u>	<u>\$ 13,279,188</u>	<u>\$ 2,533,532</u>	<u>\$ 56,882,065</u>	<u>\$ 56,929,014</u>

cont.

Exhibit 1, cont.

Liabilities, Equity and Other Credits	Notes	Governmental Fund Types			Proprietary Fund Types		Account Groups		Totals (Memorandum Only)	
		General	Special Revenue	Capital Projects	Enterprise	Internal Service	General Fixed Assets	General Long-Term Debt	2001	2000
Liabilities:										
Current liabilities:										
Accounts payable/accrued expenses		\$ 184,329	\$ 4,705	\$ 1,240	\$ 795,581	\$ 234,222	\$ -	\$ -	\$ 1,220,077	\$ 1,227,010
Due to other government		-	-	-	11,418	-	-	-	11,418	28,835
Customer deposits		-	-	-	150,406	-	-	-	150,406	157,657
Due to other funds	18	-	6,400	-	402,368	-	-	-	408,768	402,368
Deferred revenues	14	326,798	-	-	-	-	-	-	326,798	262,265
General obligation bonds payable	6	-	-	-	474,340	-	-	50,660	525,000	540,000
Discount on bonds issuance - net		-	-	-	(3,517)	-	-	-	(3,517)	(3,875)
Deferred loss on refunding - net		-	-	-	(186,719)	-	-	-	(186,719)	(205,707)
Loans payable	6	-	-	-	67,178	-	-	-	67,178	90,558
Installment purchase payable	7	-	-	-	700,710	-	-	505,699	1,206,409	1,072,660
Noncurrent liabilities:										
General obligation bonds payable	6	-	-	-	3,636,270	-	-	278,730	3,915,000	4,440,000
Loans payable	6	-	-	-	348,481	-	-	-	348,481	415,659
Installment purchase payable	7	-	-	-	5,391,538	-	-	1,022,493	6,414,030	7,078,440
Accrued vacation pay	1,6	-	-	-	95,594	-	-	290,273	385,867	364,294
Unfunded pension benefit obligation	6,8	-	-	-	-	-	-	385,678	385,678	332,747
Total liabilities		<u>511,127</u>	<u>11,105</u>	<u>1,240</u>	<u>11,883,647</u>	<u>234,222</u>	<u>-</u>	<u>2,533,532</u>	<u>15,174,873</u>	<u>16,202,910</u>
Equity and other credits:										
Investment in general fixed assets		-	-	-	-	-	13,279,188	-	13,279,188	12,799,247
Contributed capital	15	-	-	-	9,993,268	-	-	-	9,993,268	9,993,268
Retained earnings - unreserved		-	-	-	15,509,738	53,959	-	-	15,563,697	14,274,853
Fund balances:										
Reserved by State statute	1	141,653	-	-	-	-	-	-	141,653	197,570
Reserved for inventories	1	26,790	-	-	-	-	-	-	26,790	37,437
Reserved for encumbrances	1	91,183	-	-	-	-	-	-	91,183	283,050
Reserved for streets - Powell Bill	1	194,755	-	-	-	-	-	-	194,755	429,764
Reserved for open space fees	1	11,321	-	-	-	-	-	-	11,321	8,375
Unreserved (available for appropriation):										
Designated for subsequent year	1	426,150	-	-	-	-	-	-	426,150	-
Undesignated	1	<u>1,962,439</u>	<u>3,926</u>	<u>12,822</u>	<u>25,503,006</u>	<u>53,959</u>	<u>13,279,188</u>	<u>-</u>	<u>1,979,187</u>	<u>2,702,542</u>
Total equity and other credits		<u>2,854,291</u>	<u>3,926</u>	<u>12,822</u>	<u>25,503,006</u>	<u>53,959</u>	<u>13,279,188</u>	<u>-</u>	<u>41,707,192</u>	<u>40,726,105</u>
Total liabilities, equity and other credits		<u>\$ 3,365,417</u>	<u>\$ 15,031</u>	<u>\$ 14,062</u>	<u>\$ 37,386,653</u>	<u>\$ 288,181</u>	<u>\$ 13,279,188</u>	<u>\$ 2,533,532</u>	<u>\$ 56,882,065</u>	<u>\$ 56,929,014</u>

The accompanying notes are an integral part of the financial statements.

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
All Governmental Fund Types
For the Year Ended June 30, 2002
(With Comparative Totals for the Year Ended June 30, 2001)**

	Governmental Fund Types			Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	2002	2001
Revenues:					
Ad valorem taxes	\$ 3,581,664	\$ -	\$ -	\$ 3,581,664	\$ 3,511,413
Other taxes and licenses	2,226,856	-	-	2,226,856	2,310,695
Unrestricted intergovernmental revenues	808,946	-	-	808,946	1,435,140
Restricted intergovernmental revenues	455,239	185,171	-	640,410	869,837
Permits and fees	78,521	-	-	78,521	80,322
Sales and services	464,119	-	-	464,119	498,049
Investment earnings	99,184	494	-	99,678	207,878
Other revenues	<u>600,942</u>	<u>-</u>	<u>-</u>	<u>600,942</u>	<u>143,501</u>
Total revenues	<u>8,315,472</u>	<u>185,665</u>	<u>-</u>	<u>8,501,137</u>	<u>9,056,836</u>
Expenditures:					
Current:					
General government	1,688,026	-	-	1,688,026	1,687,240
Public safety	3,790,221	-	-	3,790,221	3,562,055
Transportation	891,614	-	-	891,614	660,139
Environmental protection	903,826	-	-	903,826	896,416
Cultural and recreational	971,157	-	-	971,157	983,259
Economic and physical development	-	223,829	-	223,829	407,543
Capital outlay	-	-	10,626	10,626	5,705
Debt service:					
Principal retirement	475,085	-	-	475,085	387,848
Interest and fees	<u>56,711</u>	<u>-</u>	<u>-</u>	<u>56,711</u>	<u>76,024</u>
Total expenditures	<u>8,776,641</u>	<u>223,829</u>	<u>10,626</u>	<u>9,011,096</u>	<u>8,666,229</u>
Revenues over (under) expenditures	<u>(461,169)</u>	<u>(38,164)</u>	<u>(10,626)</u>	<u>(509,959)</u>	<u>390,608</u>
Other Financing Sources (Uses):					
Proceeds from borrowing	355,000	-	-	355,000	655,000
Operating transfers - in	-	-	-	-	62,208
Operating transfers - out	<u>(602,400)</u>	<u>(19,693)</u>	<u>-</u>	<u>(622,093)</u>	<u>(621,608)</u>
Total other financing sources (uses)	<u>(247,400)</u>	<u>(19,693)</u>	<u>-</u>	<u>(267,093)</u>	<u>95,600</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(708,569)	(57,857)	(10,626)	(777,052)	486,209
Fund balances, July 1	3,573,507	61,783	23,448	3,658,738	3,170,141
Increase (decrease) in reserve for inventory	<u>(10,647)</u>	<u>-</u>	<u>-</u>	<u>(10,647)</u>	<u>2,389</u>
Fund balances, June 30	<u>\$ 2,854,291</u>	<u>\$ 3,926</u>	<u>\$ 12,822</u>	<u>\$ 2,871,039</u>	<u>\$ 3,658,738</u>

The accompanying notes are an integral part of the financial statements.

**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended June 30, 2002**

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Ad valorem taxes	\$ 3,483,900	\$ 3,581,664	\$ 97,764
Other taxes and licenses	2,461,400	2,226,856	(234,544)
Unrestricted intergovernmental revenues	1,443,050	808,946	(634,104)
Restricted intergovernmental revenues	471,350	455,239	(16,111)
Permits and fees	88,300	78,521	(9,779)
Sales and services	480,750	464,119	(16,631)
Investment earnings	151,700	99,184	(52,516)
Other revenues	<u>214,000</u>	<u>600,942</u>	<u>386,942</u>
Total revenues	<u>8,794,450</u>	<u>8,315,472</u>	<u>(478,978)</u>
Expenditures:			
Current:			
General government	2,070,550	1,688,026	382,524
Public safety	3,623,700	3,790,221	(166,521)
Transportation	953,950	891,614	62,336
Environmental protection	958,900	903,826	55,074
Cultural and recreational	1,301,750	971,157	330,593
Contingency	6,550	-	6,550
Debt service:			
Principal retirement	503,350	475,085	28,265
Interest and fees	<u>33,800</u>	<u>56,711</u>	<u>(22,911)</u>
Total expenditures	<u>9,452,550</u>	<u>8,776,641</u>	<u>675,909</u>
Revenues over (under) expenditures	(658,100)	(461,169)	196,931
Other Financing Sources (Uses):			
Appropriated fund balance	905,500	-	(905,500)
Proceeds from borrowing	355,000	355,000	-
Operating transfers - in	-	-	-
Operating transfers - out	<u>(602,400)</u>	<u>(602,400)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	(708,569)	<u>\$ (708,569)</u>
Fund balance, July 1		3,573,507	
Increase (decrease) in reserve for inventory		<u>(10,647)</u>	
Fund balance, June 30		<u>\$ 2,854,291</u>	

The accompanying notes are an integral part of the financial statements.

**Combined Statement of Revenues, Expenses and Changes in
Retained Earnings - All Proprietary Fund Types
For the Year Ended June 30, 2002
(With Comparative Totals for the Year Ended June 30, 2001)**

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2002	2001
Operating Revenues:				
Charges for services	\$ 11,631,737	\$ -	\$ 11,631,737	\$ 11,220,725
Other operating revenues	<u>676,941</u>	<u>855,709</u>	<u>1,532,651</u>	<u>1,393,930</u>
Total operating revenues	<u>12,308,678</u>	<u>855,709</u>	<u>13,164,388</u>	<u>12,614,655</u>
Operating Expenses:				
Power for resale	5,935,799	-	5,935,799	5,614,761
Operations	3,361,139	956,030	4,317,169	4,194,133
Maintenance	565,956	-	565,956	684,244
Administration	1,225,350	-	1,225,350	760,200
Contingency	-	-	-	226,000
Depreciation	<u>1,317,954</u>	<u>-</u>	<u>1,317,954</u>	<u>1,665,581</u>
Total operating expenses	<u>12,406,198</u>	<u>956,030</u>	<u>13,362,228</u>	<u>13,144,919</u>
Operating income (loss)	<u>(97,520)</u>	<u>(100,321)</u>	<u>(197,840)</u>	<u>(530,265)</u>
Nonoperating Revenues (Expenses):				
Sales taxes	226,147	-	226,147	218,704
Investment earnings	159,146	7,203	166,349	404,224
Interest expense	(496,824)	-	(496,824)	(532,369)
Gain (loss) on disposal of fixed assets	<u>(36,078)</u>	<u>-</u>	<u>(36,078)</u>	<u>(220,835)</u>
Nonoperating revenues - net	<u>(147,609)</u>	<u>7,203</u>	<u>(140,406)</u>	<u>(130,276)</u>
Income (loss) before operating transfers	(245,129)	(93,117)	(338,246)	(660,541)
Transfer from (to) other funds:				
General Fund	602,400	-	602,400	602,400
Special Revenue Fund	19,693	-	19,693	(43,000)
Capital contributions	<u>1,004,997</u>	<u>-</u>	<u>1,004,997</u>	<u>-</u>
Net income (loss)	1,381,961	(93,117)	1,288,844	(101,140)
Retained earnings, July 1	<u>14,127,777</u>	<u>147,076</u>	<u>14,274,853</u>	<u>14,375,994</u>
Retained earnings, June 30	<u>\$ 15,509,738</u>	<u>\$ 53,959</u>	<u>\$ 15,563,697</u>	<u>\$ 14,274,853</u>

The accompanying notes are an integral part of the financial statements.

Combined Statement of Cash Flows - All Proprietary Fund Types
For the Year Ended June 30, 2002
(With Comparative Totals for the Year Ended June 30, 2001)

	Proprietary Fund Types		Totals	
	Enterprise	Internal Service	(Memorandum Only)	
			2002	2001
Cash Flows From Operating Activities:				
Operating income (loss)	\$ (97,519)	\$ (100,321)	\$ (197,840)	\$ (530,265)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	1,317,957	-	1,317,957	1,665,581
Changes in assets and liabilities:				
Accounts and interest receivable	(130,549)	1,713	(128,836)	184,082
Due to (from) other funds	(6,400)	-	(6,400)	-
Due to (from) other governmental agencies	(17,417)	-	(17,417)	18,785
Inventories	72,470	-	72,470	(82,396)
Accounts payable and accrued expenses	158,745	15,332	174,077	(207,769)
Customer deposits	(7,251)	-	(7,251)	3,962
Accrued vacation pay	<u>6,965</u>	<u>-</u>	<u>6,965</u>	<u>(5,778)</u>
Net cash provided by (used in) operating activities	<u>1,297,001</u>	<u>(83,276)</u>	<u>1,213,725</u>	<u>1,046,202</u>
Cash Flows From Non-Capital Financing Activities:				
Operating transfers - in	622,093	-	622,093	602,400
Operating transfers - (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43,000)</u>
Net cash provided by (used in) non-capital financing activities	<u>622,093</u>	<u>-</u>	<u>622,093</u>	<u>559,400</u>
Cash Flows From Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(2,795,863)	-	(2,795,863)	(876,406)
Sales tax	226,147	-	226,147	218,704
Proceeds from disposal of fixed assets	-	-	-	3,702
(Increase) decrease in restricted cash	1,967,952	-	1,967,952	681,861
Payments of general obligation bonds, loans and installment purchase payable	(1,228,134)	-	(1,228,134)	(1,169,265)
Interest paid on general obligation bonds, loans and installment purchase payable	(477,478)	-	(477,478)	(513,023)
Proceeds from issuance of general obligation bonds, loans and installment purchases	<u>187,000</u>	<u>-</u>	<u>187,000</u>	<u>265,000</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,120,376)</u>	<u>-</u>	<u>(2,120,376)</u>	<u>(1,389,427)</u>

cont.

**Combined Statement of Cash Flows -
All Proprietary Fund Type (continued)**

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2002	2001
Cash Flows From Investing Activities:				
Interest on investments	<u>\$ 159,146</u>	<u>\$ 7,203</u>	<u>\$ 166,349</u>	<u>\$ 404,223</u>
Net increase (decrease) in cash and cash equivalents	(42,136)	(76,073)	(118,209)	620,398
Cash and cash equivalents at beginning of year	<u>4,487,289</u>	<u>363,746</u>	<u>4,851,035</u>	<u>4,230,637</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,445,154</u></u>	<u><u>\$ 287,673</u></u>	<u><u>\$ 4,732,826</u></u>	<u><u>\$ 4,851,035</u></u>
Supplemental Schedule of Non Cash Financing Activities:				
Amortization of discount on refunded debt	<u>\$ 358</u>	<u>\$ -</u>	<u>\$ 358</u>	<u>\$ 358</u>
Amortization of loss on refunded debt	<u>\$ 18,988</u>	<u>\$ -</u>	<u>\$ 18,988</u>	<u>\$ 18,988</u>
Acquisition of assets through contribution of contributed capital	<u>\$ 1,004,997</u>	<u>\$ -</u>	<u>\$ 1,004,997</u>	<u>\$ -</u>
Acquisition of fixed assets through transfer from other fund	<u>\$ 110,427</u>	<u>\$ -</u>	<u>\$ 110,427</u>	<u>\$ -</u>
Decrease in fixed assets due to transfer to other fund	<u>\$ 45,726</u>	<u>\$ -</u>	<u>\$ 45,726</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.



CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements

June 30, 2002

1. Summary of Significant Accounting Policies

The accounting policies of the City of Newton conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City of Newton is a municipal corporation governed by an elected mayor and a six-member board of aldermen.

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The account groups are not funds but are a reporting device used to account for certain assets and liabilities of the governmental funds that are not recorded directly in those funds.

The City uses the following fund categories (further divided by fund type) and account groups:

Governmental Funds are used to account for the City's governmental functions. Governmental funds include the following fund types:

General Fund - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and Federal and State grants and various other taxes and licenses. The primary expenditures are for public safety, streets and highways, sanitation, cultural, recreational, and general government services.

Special Revenue Funds - Special Revenue Funds account for specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. The City maintains five Special Revenue Funds: the Rowe Subdivision Infrastructure Project, the Image Industries/Economic Development Project, the Prodelin Corporation Economic Development Project, Infrastructure Water Hook-Up Project and 2000 City Urgent Repair Project of Newton.

Capital Projects Fund - Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The City has two Capital Projects Funds, the Downtown Facade Improvement Capital Project Fund and the US 321 Business Sidewalk Capital Project Fund within the governmental fund types. The Enterprise Fund Type Capital Projects (Water and Wastewater and Electric) have been included in each respective Enterprise Fund.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

Proprietary Funds include the following fund types:

Enterprise Funds - Enterprise Funds account for those operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City of Newton has two Enterprise Funds: the Water and Wastewater Fund and Electric Fund. For financial reporting purposes the Water and Wastewater and Electric capital projects have been consolidated with the enterprise operating funds.

Internal Service Funds - Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental units, or to other governmental units, on a cost-reimbursement basis. The City of Newton has one Internal Service Fund, the Health Insurance Fund, which accounts for the payment of medical claims of the City's employees and their covered dependents.

Account Groups -

General Fixed Assets Account Group - This account group is used to account for fixed assets that are not accounted for in proprietary or trust funds.

General Long-Term Debt Account Group - This account group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements for these funds present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. As required for periods beginning after June 15, 2000 by Statement 33 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Nonexchange Transactions, the Board has begun recognizing capital contributions as revenue in the current year, rather than as contributed capital.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

The basis of accounting determines when revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting. The governmental fund types are presented in the financial statements on this same basis. Under the modified accrual basis, revenues are recognized in the accounting period when they become susceptible to accrual (i.e. when they are "measurable" and "available") to pay the liabilities of the current period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The City recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return.

The City considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Catawba County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Newton. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Catawba County from March 2001 through February 2002 apply to the fiscal year ended June 30, 2002. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2002 because they are intended to finance the City's operations during the 2003 fiscal year.

Sales taxes collected and held by the State at year end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as deferred revenues.

Proprietary Funds, which include the Enterprise and Internal Service Funds, are presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred. As permitted by generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989, that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Enterprise Funds and the Internal Service Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Special Revenue Fund and the Capital Projects Fund. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. During the year, several amendments to the original budget were necessary, the effects of which were not material. Budget transfers are ordained by the Board of Aldermen as follows:

- (1) The City Manager is hereby authorized to approve transfers of appropriations between line items within a division budget.
- (2) In accordance with G.S. 159-13(b)(3), each expenditure to be charged against a contingency appropriation shall be authorized only by Resolution of the Board of Aldermen. In an emergency situation, the City Manager may approve an expenditure to be charged to a contingency account provided that such emergency expenditure is reported to the Board of Aldermen at its next meeting.
- (3) The City Manager is hereby authorized to approve budget transfers within a department from one division to another.
- (4) Transfers from one fund to another shall not be allowed except as is authorized by the Budget and Fiscal Control Act and such transfers shall be approved by the Board of Aldermen prior to transfer.
- (5) All transfers as authorized hereinabove shall be reported monthly to the Board of Aldermen and included in the minutes of the Board.
- (6) The Director of Finance shall prepare forms necessary to document each budget transfer and comply with the reporting of the budget transfers as specified hereinabove.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of that budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

- April 30 - Each department head will transmit to the budget officer the budget requests and the revenue estimates for their department for the budget year.
- June 1 - The budget and the budget message shall be submitted to the governing board. The public hearing on the budget shall be scheduled at this time.
- July 1 - The budget ordinance shall be adopted by the governing board.

As required by State law (G.S. 159-26(d)), the City maintains encumbrance accounts which are considered to be "budgetary accounts". Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. These encumbrances outstanding are reported as "reserved for encumbrances" in the fund balance section of the balance sheet and will be charged against the subsequent year's budget.

E. Assets, Liabilities and Fund Equity

1. Deposits and Investments

Deposits - All deposits of the City are made in board-designated official depositories and are secured as required by State law (G.S. 159-31). The City may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

Investments - State law (G.S. 159-30(c)) authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The City's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

In accordance with State law, the City has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Cash and Cash Equivalents

The unexpended installment purchase proceeds of the General Fund and Enterprise Fund are classified as restricted assets because their use is completely restricted to the purpose for which the financing was originally issued.

4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. Liens are placed on these taxes as of March 1 each year. These taxes are based on the assessed values as of January 1, 2001.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

6. Inventory

The inventories of the City are valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of expendable supplies and they are recorded as expenditures when purchased. The General Fund inventory reported on the Combined Balance Sheet is offset by a fund balance reserve that indicates it does not constitute a resource available for appropriation even though it is a component of net current assets.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

The inventory of the City's enterprise funds consists of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

7. Fixed Assets

The City's general fixed assets are recorded at original cost. Donated assets are listed at the market value at the time of donation. Certain items acquired before July 1, 1970, are recorded at an estimated original cost. The total of such estimates is not considered large enough that errors would be material when the fixed assets are considered as a whole.

Public domain or infrastructure general fixed assets are not capitalized because such assets are immovable and are of value only to the City.

Property, plant and equipment in the proprietary funds of the City is recorded at original cost at the time of acquisition. Property, plant and equipment donated to these proprietary fund type operations are recorded at the estimated fair market value at the date of donation. Plant assets of the City are depreciated on a composite straight-line basis for the entire plant, regardless of the year of acquisition, at a 2% annual rate. In the composite rate, gain or loss on dispositions is not calculated except in extraordinary circumstances. Other assets of the City are depreciated on a class life basis at the following rates:

Furniture and office equipment	10%
Maintenance and construction equipment	12%
Medium and heavy motor vehicles	16%
Automobiles and light trucks	30%

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

8. Long-Term Obligations

For governmental fund types, bond issuance costs are recognized during the current period. Bond proceeds are reported as other financing sources. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures. For the proprietary fund types, material bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Material issuance costs are reported as deferred charges.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

The City's long-term debt for water and wastewater and electric purposes is carried in the Enterprise Funds rather than the General Long-Term Debt Account Group. The debt service requirements for the Water and Wastewater and Electric debt are being met by water and wastewater and electric revenues, but the taxing power of the City is pledged to make these payments if water and wastewater and electric revenues should ever be insufficient. Long-term debt for other purposes is included in the General Long-Term Debt Account Group (e.g., vacation pay, general obligation bonds, unfunded pension benefit obligation and capital leases). The debt service requirements for all debt carried in the General Long-Term Debt Account Group are appropriated annually in the General Fund.

9. Fund Equity

Reservations or restrictions of equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

State law (G.S. 159-13(b)(16)) restricts appropriation of fund balance or fund equity for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balance as follows:

Reserved

Reserved for inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law (G.S. 159-8(a)). This amount is usually comprised of accounts receivable and interfund receivables which have not been offset by deferred revenues.

Reserved for streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Reserved for open space fees - portion of fund balance available to pay for recreational needs.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

Unreserved

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated for the adopted 2002-2003 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

F. Revenues, Expenditures and Expenses

1. Other Resources

The General Fund provides the basis of local resources for other governmental funds. These transactions are recorded as "Operating transfers-out" in the General Fund and "Operating transfers-in" in the receiving fund.

2. Compensated Absences

The vacation policy of the City provides for the accumulation of up to two hundred forty (240) hours earned vacation leave with such leave being fully vested when earned. For the City, the current portion of the accumulated vacation pay is not considered to be material; no expenditure or liability has been recorded in the governmental funds. The City's liability for accumulated earned vacation and the salary-related payments for governmental funds is recorded in the General Long-Term Debt Account Group. For the City's proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded within the funds as the leave is earned.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

G. Total (Memorandum Only) Columns

The total columns on the accompanying financial statements are captioned as "Total (Memorandum Only)" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

H. Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. Also, certain amounts presented in the prior year's data have been reclassified to be

consistent with the current year's presentation.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

2. Stewardship, Compliance and Accountability

A. Excess of Expenditures Over Appropriations

Excess of Expenditures over Appropriations in Individual Funds - As shown in the statement of revenues and expenditures of the Enterprise Fund and the General Fund and the statement of revenues and expenses of the Health Insurance Fund, the following departments exceeded their budget appropriation for the year ended June 30, 2002:

Enterprise Fund:	
Water and Wastewater Fund - Debt Service	\$ 18,682
Health Insurance Fund:	
Operating expenses	\$ 3,130
General Fund:	
Public safety	\$166,521

3. Deposits and Investments

A. Deposits

All the deposits of the City are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2002, the City's deposits had a carrying amount of \$5,682,064 and a bank balance of \$5,852,376. The bank balance of the City was fully covered by the Pooling Method.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

B. Investments

The investments of the City are categorized to give an indication of the level of custodial risk assumed by each of these entities at year-end. Column A includes investments that are insured or registered or for which the securities are held by the City or their agents in the entity's name. Column B includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Column C includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the City's name. The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the City does not own any identifiable securities, but are shareholders of a percentage of the funds.

At June 30, 2002, the City's investments were as follows:

	<u>A</u>	<u>B</u>	<u>C</u>	<u>Reported Value</u>	<u>Fair Value</u>
Governmental National Mortgage Association (GNMA)	<u>\$9,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,759</u>	<u>\$ 9,759</u>
Total	<u>\$9,759</u>	<u>\$ -</u>	<u>\$ -</u>	9,759	9,759
Investments not subject to categorization:					
North Carolina Cash Management Trust Mutual Fund				1,877,054	1,877,054
Restricted cash and investments held in pooled cash or Mutual Fund accounts				<u>59,292</u>	<u>59,292</u>
Total				<u>\$1,946,105</u>	<u>\$1,946,105</u>

4. Receivables - Allowance for Doubtful Accounts

The amounts presented in Exhibit 1, the Combined Balance Sheet, are net of the following allowances for doubtful accounts:

General Fund:	
Allowance for uncollectible property taxes receivable	<u>\$26,634</u>
Enterprise Funds - allowances for uncollectible receivables:	
Water and Wastewater Fund	\$ 9,700
Electric Fund	<u>27,300</u>
Total	<u>\$37,000</u>

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

5. Fixed Assets

A. A summary of changes in the City's general fixed assets follows:

	Balances July 1, 2001	Additions	Net Transfers	Retirements	Balances June 30, 2002
By asset type:					
Land and improvements	\$ 2,010,652	\$ 265,125	\$(709,346)	\$ -	\$ 1,566,431
Buildings and improvements	3,686,444	402,049	955,971	-	5,044,464
Distribution	-	178,951	-	-	178,951
Equipment and vehicles	7,084,435	549,318	(316,786)	(838,251)	6,478,716
Construction in progress	<u>17,716</u>	<u>147,496</u>	<u>(154,586)</u>	<u>-</u>	<u>10,626</u>
Total	<u>\$12,799,247</u>	<u>\$1,542,939</u>	<u>\$(224,747)</u>	<u>\$(838,251)</u>	<u>\$13,279,188</u>
By function:					
General government	\$ 3,134,472	\$ 469,199	\$223,342	\$(413,170)	\$ 3,413,843
Public safety	4,049,292	633,561	(549,206)	(255,537)	3,878,109
Transportation	2,146,210	213,427	235,341	(15,250)	2,579,728
Environmental protection	752,540	144,890	33,162	(148,215)	782,377
Cultural and recreational	<u>2,716,733</u>	<u>81,862</u>	<u>(167,385)</u>	<u>(6,079)</u>	<u>2,625,131</u>
Total	<u>\$12,799,247</u>	<u>\$1,542,939</u>	<u>\$(224,747)</u>	<u>\$(838,251)</u>	<u>\$13,279,188</u>
	Balances July 1, 2001	Additions	Net Transfers	Retirements	Balances June 30, 2002
By funding source:					
Assets purchased prior to 1984-85 from undetermined sources	\$ 3,764,610	\$ -	\$ -	\$ -	\$ 3,764,610
General Fund	7,733,839	804,588	(70,161)	(838,251)	7,630,014
Contributions	32,026	377,870	-	-	409,896
Capital Projects Fund:					
General obligation bond proceeds	695,317	-	-	-	695,317
Federal grants	267,678	24,365	-	-	292,043
State grants	<u>305,777</u>	<u>336,117</u>	<u>(154,586)</u>	<u>-</u>	<u>487,308</u>
Total	<u>\$12,799,247</u>	<u>\$1,542,939</u>	<u>\$(224,747)</u>	<u>\$(838,251)</u>	<u>\$13,279,188</u>
Reconciliation of additions:					
General Fund capital outlay expenditures		<u>\$1,542,939</u>			
Total		<u>\$1,542,939</u>			

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements
June 30, 2002

B. A summary of enterprise fund type property and equipment at June 30, 2002 follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Water and Wastewater Fund:			
Land and improvements	\$ 218,566	\$ -	\$ 218,566
Buildings and improvements	19,337,120	9,073,434	10,263,686
Distribution system	17,060,809	5,345,398	11,715,411
Furniture and maintenance equipment	655,032	370,562	284,470
Vehicles	494,943	332,542	162,401
Construction in progress	<u>2,092,045</u>	<u>-</u>	<u>2,092,045</u>
Total	<u>\$39,858,515</u>	<u>\$15,121,936</u>	<u>\$24,736,579</u>
Electric Fund:			
Land and improvements	\$ 5,000	\$ -	\$ 5,000
Buildings and improvements	500,567	324,744	175,823
Distribution system	8,188,762	2,895,123	5,293,639
Furniture and maintenance equipment	441,377	265,587	175,790
Vehicles	496,783	280,678	216,105
Construction in progress	<u>208,866</u>	<u>-</u>	<u>208,866</u>
Total	<u>\$ 9,841,355</u>	<u>\$ 3,766,132</u>	<u>\$ 6,075,223</u>

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

6. Long-Term Debt

Bonds Payable

The City's general obligation bonds serviced by the governmental funds are accounted for in the General Long-Term Debt Account Group. The general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and wastewater systems and which are being retired by its resources are reported as long-term debt in the Water and Wastewater Fund. All general obligation bonds are collateralized by the full faith, credit and taxing power of the City. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2002 are comprised of the following individual issues:

Serviced by the Water and Wastewater Fund:

\$3,466,761, 1986 refunded water serial bonds due in annual installments ranging from \$104,789 to \$397,324 through February 1, 2007; interest at 4.7% to 5.0%	\$1,183,239
\$3,553,649, 1999 refunded sewer serial bonds due in annual installments ranging from \$84,125 to \$519,957 through April 2012; interest at 4.0% to 4.3%	2,927,371

Serviced by the General Fund:

\$503,239, 1984 refunded recreation center serial bonds in annual installments ranging from \$15,211 to \$57,676 through February 1, 2007; interest at 4.7% to 5.0%	171,761
\$191,351, 1999 refunded recreation center serial bonds due in annual installments ranging from \$4,530 to \$27,998 through April, 2012; interest at 4.0% to 4.3%	<u>157,629</u>

Total	<u><u>\$4,440,000</u></u>
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Loans Payable

The loans payable shown in the Water and Wastewater Funds are due to the County of Catawba, North Carolina in conjunction with the construction of various water and wastewater projects. The projects were complete and operating as of June 30, 2002. Principal and interest requirements are appropriated when due.

Loans payable at June 30, 2002 are comprised of the following:

Serviced by the Water and Wastewater Fund:

\$40,132, 1986 noninterest bearing water loan payable to Catawba County due in annual installments of \$301 through November, 2007	\$ 1,806
\$133,427, 1984 noninterest bearing wastewater loan payable to Catawba County due in annual installments of \$6,671 through May 2005	20,014
\$158,644, 1985 noninterest bearing water loan payable to Catawba County due in annual installments of \$7,932 through April, 2006	31,729
\$210,000, 1984 wastewater loan payable to Catawba County due in annual installments of \$11,025, including interest at 5.0% through May 2005	32,767
\$145,385, 1990 noninterest bearing water loan payable to Catawba County due in annual installments of \$7,631 through June, 2010	61,052
\$213,183, 1992 and 1991 noninterest water loan payable to Catawba County due in annual installments of \$10,659 through June, 2011	106,591

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

\$138,750. 1995 Walnut Creek noninterest bearing wastewater line project loan payable to Catawba County in annual installments of \$13,875 through 2005	\$ 41,625
\$184,730. 1994 McKay Road project noninterest bearing loan payable to Catawba County, in annual installments of \$9,237 through 2014	<u>120,075</u>
Total	<u>\$415,659</u>

The City advance refunded the 1984 Recreation Bonds to increase its total debt service payments over the next 15 years by \$58,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$44,000. The general long-term debt outstanding at June 30, 2002 related to the refunding and being serviced by the general fund was \$171,761.

Although the advance refunding that related to the proprietary (Water and Wastewater Fund) resulted in the recognition of an accounting loss of \$366,761 for the year ended June 30, 1993, the City in effect reduced its aggregate debt service payments by \$443,597 over the next 15 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$204,000. The general long-term debt outstanding related to the refunding and being serviced by the water and sewer fund was \$1,183,239.

Legal Debt Margin

At June 30, 2002, the City of Newton had bonds authorized but unissued totaling \$1,000,000 and had a legal debt margin of \$50,203,360.

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the General Long-Term Debt Account Group:

	<u>July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2002</u>
By type of debt:				
General obligation bonds	\$ 381,572	\$ -	\$ (52,182)	\$ 329,390
Accrued compensated absences	275,665	14,608	-	290,273
Unfunded pension benefit obligation	332,747	52,931	-	385,678
Installment purchase payable	<u>1,596,095</u>	<u>355,000</u>	<u>(422,903)</u>	<u>1,528,192</u>
Total	<u>\$2,586,078</u>	<u>\$422,539</u>	<u>\$(475,085)</u>	<u>\$2,533,532</u>
By purpose:				
Recreation center	\$ 381,572	\$ -	\$ (52,182)	\$ 329,390
Vacation pay	275,665	14,608	-	290,273
Law enforcement officers special separation allowance	332,747	52,931	-	385,678
Fire truck (1996)	288,763	-	(128,075)	460,688
Engineering copier	2,525	-	(2,525)	-
Equipment	949,499	355,000	(175,679)	828,820
Police vehicles	224,175	-	(74,695)	149,480
Refuse rollouts	<u>131,132</u>	<u>-</u>	<u>(41,929)</u>	<u>89,203</u>
Total	<u>\$2,586,078</u>	<u>\$422,539</u>	<u>\$(475,085)</u>	<u>\$2,533,532</u>

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements

June 30, 2002

The following table summarizes the annual requirements to amortize all long-term debt, excluding vacation pay and unfunded pension benefit obligation:

	General Obligation Bonds		Loans Payable		Total Debt Due	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
General Long-term Debt:						
2003	\$ 50,660	\$ 14,952	\$ -	\$ -	\$ 50,660	\$ 14,952
2004	50,026	12,527	-	-	50,026	12,527
2005	48,758	10,133	-	-	48,758	10,133
2006	47,869	7,802	-	-	47,869	7,802
2007	33,974	5,513	-	-	33,974	5,513
Thereafter	<u>98,103</u>	<u>10,383</u>	<u>-</u>	<u>-</u>	<u>98,103</u>	<u>10,383</u>
Total	<u>329,390</u>	<u>61,310</u>	<u>-</u>	<u>-</u>	<u>329,390</u>	<u>61,310</u>
Enterprise Fund:						
2003	474,340	177,353	67,178	154	541,518	177,507
2004	469,974	155,628	67,229	103	537,203	155,731
2005	461,242	134,122	67,280	52	528,522	134,174
2006	452,131	113,053	35,760	-	487,891	113,053
2007	445,985	92,392	27,828	-	473,813	92,392
Thereafter	<u>1,806,938</u>	<u>192,837</u>	<u>150,384</u>	<u>-</u>	<u>1,957,321</u>	<u>192,837</u>
Total	<u>4,110,610</u>	<u>865,385</u>	<u>415,659</u>	<u>309</u>	<u>4,526,269</u>	<u>865,694</u>
Total	<u>\$4,440,000</u>	<u>\$ 926,695</u>	<u>\$ 415,659</u>	<u>\$ 309</u>	<u>\$4,855,659</u>	<u>\$ 927,004</u>

7. Installment Purchase Payable

The City has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is an analysis of assets recorded under capital leases in both the City's General Long Term Debt Account Group and the Enterprise Fund at June 30, 2002:

<u>Classes of Property</u>	<u>General Fixed Asset Account Group</u>	<u>Enterprise Fund</u>
Distribution system	\$ -	\$3,758,150
Utility project	-	3,291,850
Vehicles/equipment	<u>2,140,225</u>	<u>721,975</u>
	<u>\$2,140,225</u>	<u>\$7,771,975</u>

CITY OF NEWTON, NORTH CAROLINA**Notes to the Financial Statements**
June 30, 2002

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2002 were as follows:

<u>Year Ended June 30,</u>	General Fixed Asset Account Group	Enterprise Fund
2003	\$ 578,864	\$ 985,974
2004	475,719	917,915
2005	253,659	867,025
2006	215,573	854,300
2007	132,964	779,636
Thereafter	<u>52,638</u>	<u>3,059,033</u>
Total minimum lease payments	1,709,416	7,463,883
Less amount representing interest	<u>181,224</u>	<u>1,371,635</u>
Present value of future minimum lease	<u><u>\$1,528,192</u></u>	<u><u>\$6,092,248</u></u>

8. Pension Plan Obligations**A. Local Government Employees' Retirement System****Plan Description**

The City of Newton contributes to the statewide Local Government Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR included financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

Funding Policy

Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 5.38% and 5.23%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Newton is established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2002, 2001, and 2000 were \$294,634, \$279,583, and \$274,028, respectively. The contributions made by the City equaled the required contribution for each year.

B. Law Enforcement Officers Special Separation Allowance

Plan Description

The City of Newton administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2001, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>35</u>
Total	<u>35</u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

Basis of Accounting - The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures will be made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments - No funds are set aside to pay benefits and administration costs. These expenditures will be paid as they become due.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2001 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumption included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9%-9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

Annual Pension Cost and Net Pension Obligation - The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 42,349
Interest on net pension obligation	12,245
Adjustment to annual required contribution	<u>(8,893)</u>
Annual pension cost	45,701
Contributions made for the fiscal year ending June 30, 2002	<u>-</u>
Increase (decrease) in net pension obligation	45,701
Net pension obligation beginning of year	<u>168,895</u>
Net pension obligation end of year	<u><u>\$214,596</u></u>

3 Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2000	\$24,250	0%	\$139,308
6/30/2001	\$29,587	0%	\$168,895
6/30/2002	\$45,701	0%	\$214,596

C. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description - The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

Funding Policy - Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2002 were \$84,658, which consisted of \$61,685 from the City and \$22,973 from the law enforcement officers.

9. Other Postemployment Benefits

Health Care Benefits

According to a City resolution, the City provides postretirement health care benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System). Employees of the City who retire may elect to continue health care coverage, provided the following eligibility requirements are met by the retiring employee:

- 1) The retiring employee must meet the retirement qualifications outlined by the North Carolina Local Government Employees Retirement System.
- 2) The retiring employee must be at least fifty-five years of age.
- 3) The employee's last twenty full-time consecutive years of employment must have been with the City.
- 4) Coverage will terminate upon the retiring employee attaining the age of sixty-five.
- 5) The retiring employee is responsible for paying the monthly premium, in advance, to the City.
- 6) The retiring employee may elect to include family coverage only if the employee was covering the family at the time of retirement. In case of death of the retired employee before age sixty-five, family coverage would terminate on the last day of the month in which the retired employee dies.

For employees at the City who have thirty (30) or more consecutive years of employment with the City, the City pays the full cost of coverage for the retiree only.

Currently two (2) retirees are eligible for postretirement health benefits. For the fiscal year ended June 30, 2002, the City made payments for postretirement health benefit premiums of \$9,059. The City obtains health care coverage through private insurers.

Death Benefits

The City has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$20,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates

established annually by the State.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2002 the City made contributions to the State for death benefits of \$7,164. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .13% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

10. Commitments

At June 30, 2002, the City had commitments of approximately \$134,086 for construction of water and wastewater lines. These projects are being funded by the Special Revenue Funds and the Enterprise Funds.

11. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disaster for which the City carries commercial insurance. The City has workers' compensation coverage of \$1,000,000 per occurrence, law enforcement officers' liability and public official liability of \$2 million per occurrence, with a \$2 million umbrella policy, auto liability of \$1 million per accident, public entity general liability of \$3 million; inland marine and commercial of \$1,171,430 and blanket bonding of \$10,000 per employee.

There have been no significant reductions in insurance coverage from previous years and settled claims have not exceeded coverage in any of the past three fiscal years.

12. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The Plan is administered by the International City Management Association. Investments are managed by the plan trustee under several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

13. Self-Insurance

The City has established a medical Health Insurance Fund in the Internal Service Fund group. The purpose of this fund is to pay medical claims of the City's employees and their covered dependents and minimize the total cost of annual medical insurance to the City. Self-insurance is in effect for losses up to \$45,000 per participant per year. Aggregate stop-loss coverage is at 120% of expected claims. Losses greater than \$40,000 per participant, and those in excess of the aggregate stop-loss, are insured by a private insurance company.

The Health Insurance Fund collects interfund premiums from insured funds and departments and pays claim settlements and purchases certain insurance policies. Interfund revenues and expenses are accrued when the interfund premiums are earned. Interfund premiums are based on the insured funds' claims experience and are adjusted to cover all reported claims. Claims settlement and loss expenses are accrued in the Health Insurance Fund for the settlement value of claims reported and the estimated value of claims incurred but not reported, up to stop-loss arising from accidents during the period. A liability is established simultaneously. No actuarial study has been performed on the Health Insurance Fund.

The following is a reconciliation of the claims liability for the year ended June 30:

	<u>2002</u>	<u>2001</u>
Claims liability, beginning of year	\$218,892	\$ 157,861
Claims incurred	780,618	634,098
Payments on claims	<u>(765,288)</u>	<u>(573,067)</u>
Claims liability, end of year	<u>\$234,222</u>	<u>\$ 218,892</u>

14. Deferred Revenues

The balance in deferred revenues at year-end is composed of the following elements:

	<u>General</u>
Unearned School Resource Funds	\$ 40,140
Prepaid assessments not yet earned	11,978
Taxes receivable, net	271,161
Assessments receivable	<u>3,519</u>
Total deferred revenues	<u>\$326,798</u>

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

15. Proprietary Funds - Contributed Capital

Grants, entitlements and shared revenues restricted for the acquisition or construction of capital assets were recorded as contributed capital prior to the implementation of GASB Statement 33, Accounting and Financial Reporting for Nonexchange Transactions. As required by GASB Statement 33, the City has begun recognizing capital contributions as revenue in the current year rather than as contributed capital.

The following is a summary of changes in contributed capital at June 30, 2002:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Unidentified</u>	<u>Total</u>
Water and Wastewater Fund, balance 7-1-2001	\$ 30,724	\$609,431	\$1,400,488	\$7,875,625	\$9,916,268
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Water and Wastewater Fund, balance 6-30-2002	<u>\$ 30,724</u>	<u>\$609,431</u>	<u>\$1,400,488</u>	<u>\$7,875,625</u>	<u>\$9,916,268</u>
Electric Fund, balance 7-1-2001	\$ -	\$ -	\$ 77,000	\$ -	\$ 77,000
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Electric Fund, balance 6-30-2002	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,000</u>	<u>\$ -</u>	<u>\$ 77,000</u>

16. Segment Information - Enterprise Funds

The accompanying combined financial statements include three Enterprise Funds which provide electric, water and sewer services. Segment information for the year ended June 30, 2002, is as follows:

	<u>Water and Wastewater Fund</u>	<u>Electric Fund</u>	<u>Total Enterprise Funds</u>
Results of operations:			
Operating revenues	\$4,112,174	\$8,196,504	\$12,308,678
Depreciation expense	906,522	411,432	1,317,954
Operating income (loss)	52,703	(150,222)	(97,519)
Operating transfer in (out)	622,093	-	622,093
Capital contributions	1,004,997	-	1,004,997
Net income (loss)	1,392,316	(10,355)	1,381,961
Financial position:			
Total assets	27,764,743	9,621,911	37,386,653
Fixed assets, net	24,736,579	6,075,223	30,811,802
Acquisition of fixed assets	138,109	305,605	443,714
Net working capital	1,696,261	2,466,827	4,163,088
Long-term debt, net of current maturities	7,065,077	2,311,212	9,376,289
Contributed capital	9,916,268	77,000	9,993,268
Retained earnings	9,383,381	6,126,357	15,509,738
Total fund equity	19,299,649	6,203,357	25,503,006

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

17. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The City has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Electric Deregulation

In 1997, the General Assembly appointed the Study Commission on the Future of Electric Service in North Carolina ("Study Commission") to examine the cost, adequacy, availability and pricing of electric rates in North Carolina, in order to determine whether legislation is necessary to assure an adequate and reliable source of electricity and economical, fair and equitable rates for all consumers in North Carolina.

The Study Commission submitted its report to the 2000 General Assembly on May 16, 2000. That report recommended retail choice for all customers by January 1, 2006. Specific recommendations on Municipal Power Agency debt and stranded costs were deferred. The report did state that nothing in the recommendation was intended to preclude municipalities from being able to sell or retain their distribution systems by making a payment against the municipal power agency debt equal to the appraised value of the electric system. However, the Study Commission did not present legislation to the General Assembly in 2001 or 2002. The Study Commission is continuing to study the issue of electric deregulation.

The City and the Electric Agency are unable to predict the results of the study or the recommendations made by the Study Commission, or whether the recommendation to the General Assembly will be enacted into law.

Although the impact of retail electric competition cannot be measured at this time, if such competition becomes applicable to the City, it may cause significant changes in (i) the number of customers, (ii) the costs to the customers, (iii) revenues, (iv) financing costs, and (v) debt ratings.

18. Interfund Receivables and Payables

The composition of interfund balances at June 30, 2002 is as follows:

	<u>Receivables</u>	<u>Payables</u>
Infrastructure Water Hook-Up Project	\$ -	\$ 6,400
Electric Fund	402,368	-
Water and Wastewater Fund	<u>6,400</u>	<u>402,368</u>
Total	<u>\$ 408,768</u>	<u>\$ 408,768</u>

CITY OF NEWTON, NORTH CAROLINA

Notes to the Financial Statements June 30, 2002

19. Jointly Governed Organizations

North Carolina City Electric Agency

The City, in conjunction with twenty other local governments, is a member of the North Carolina City Electric Agency (Electric Agency). The Electric Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency's governing board. The twenty-one members, which receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement or residual interest. The City's purchase of power for the fiscal year ended June 30, 2002 was \$5,935,799.

Newton-Conover Auditorium Authority

The Newton-Conover Auditorium Authority was organized and incorporated by the Secretary of State of North Carolina as a nonprofit corporation on December 27, 1990. It is composed of a board of directors including members appointed by the City of Newton (four members); Newton-Conover School Board (three members); and the Catawba County Board of Commissioners (three members). The Authority's responsibilities include the restoration and renovation of the former Newton-Conover High School auditorium for use as a civic auditorium for a wide range of community activities. This community auditorium is available for use by individuals, civic groups, the schools and the local community theater group, "The Green Room".



REQUIRED SUPPLEMENTARY FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles

- C Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.**
 - C Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.**
 - C Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.**
-
-



**Schedule of Law Enforcement Officers'
Special Separation Allowance
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
		Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12/31/92	-0-	\$ 61,337	\$ 61,337	0%	\$ 650,890	9.42%
12/31/93	-0-	70,605	70,605	0%	756,544	9.33%
12/31/94	-0-	75,424	75,424	0%	773,302	9.75%
12/31/95	-0-	83,672	83,672	0%	806,115	10.38%
12/31/96	-0-	100,782	100,782	0%	861,972	11.69%
12/31/97	-0-	123,169	123,169	0%	924,900	13.32%
12/31/98	-0-	153,563	153,563	0%	984,420	15.60%
12/31/99	-0-	193,367	193,367	0%	1,086,991	17.79%
12/31/00	-0-	332,747	332,747	0%	1,120,483	29.70%
12/31/01	-0-	385,678	385,678	0%	1,178,694	32.72%

(a) Plan was established effective January 1, 1987 with the initial actuarial valuation performed as of December 31, 1988. Isolated analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the City of Newton Law Enforcement Officers' Special Separation Allowance (the Plan) funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual valuation payroll approximately adjusts for the effects of inflation and aids analysis of the progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan. To date, the City of Newton has not funded the Plan nor has the Plan had any expenditures since its inception.

**Schedule of Law Enforcement Officers’
Special Separation Allowance
Notes to Required Schedule**

Law Enforcement Officers’ Special Separation Allowance Schedule of Employer Contributions

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1999	\$21,860	2.32%
2000	26,376	2.63%
2001	32,446	2.93%
2002	42,349	3.71%
2003	46,711	3.89%

Notes to Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/01
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.9 - 9.8%
Includes inflation at	3.75%
Cost-of-living adjustments	N/A

GENERAL FUND

The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

CITY OF NEWTON, NORTH CAROLINA**Exhibit B-1**

**General Fund
Comparative Balance Sheets
June 30, 2002 and 2001**

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and short-term investments	\$ 2,894,036	\$ 3,301,094
Other investments	9,759	10,346
Taxes receivable, net	271,161	204,106
Accounts receivable, net	63,243	276,117
Interest receivable	7,372	27,241
Due from other governmental agencies	74,556	82,249
Inventories	26,790	37,437
Purchase option	18,500	-
Restricted cash and cash equivalents	<u>-</u>	<u>174,334</u>
Total assets	<u><u>\$ 3,365,417</u></u>	<u><u>\$ 4,112,924</u></u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts payable and accrued expenditures/expenses	\$ 184,329	\$ 277,152
Deferred revenues	<u>326,798</u>	<u>262,265</u>
Total liabilities	<u>511,127</u>	<u>539,417</u>
Fund balances:		
Reserved by State statute	141,653	197,570
Reserved for inventories	26,790	37,437
Reserved for encumbrances	91,183	283,050
Reserved for streets - Powell Bill	194,755	429,764
Reserved for open space fees	11,321	8,375
Unreserved:		
Designated for subsequent year	426,150	-
Undesignated	<u>1,962,439</u>	<u>2,617,311</u>
Total fund balances	<u>2,854,291</u>	<u>3,573,507</u>
Total liabilities and fund balances	<u><u>\$ 3,365,417</u></u>	<u><u>\$ 4,112,924</u></u>

General Fund
Comparative Statements of Revenues, Expenditures and Changes
In Fund Balances
For the Years Ended June 30, 2002 and 2001

	2002	2001
Revenues:		
Ad valorem taxes	\$ 3,581,664	\$ 3,511,413
Other taxes and licenses	2,226,856	2,310,695
Unrestricted intergovernmental revenues	808,946	1,435,140
Restricted intergovernmental revenues	455,239	515,458
Permits and fees	78,521	80,322
Sales and services	464,119	498,049
Investment earnings	99,184	207,878
Other revenues	<u>600,942</u>	<u>143,501</u>
Total revenues	<u>8,315,472</u>	<u>8,702,457</u>
Expenditures:		
Current:		
General government	1,688,026	1,687,240
Public safety	3,790,221	3,562,055
Transportation	891,614	660,139
Environmental protection	903,826	896,416
Cultural and recreational	971,157	983,259
Debt service:		
Principal retirement	475,085	387,848
Interest and fees	<u>56,711</u>	<u>76,024</u>
Total expenditures	<u>8,776,641</u>	<u>8,252,981</u>
Revenues over (under) expenditures	<u>(461,169)</u>	<u>449,477</u>
Other Financing Sources (Uses):		
Proceeds from borrowing	355,000	655,000
Operating transfers - in (out):		
To Water and Wastewater Fund	(602,400)	(602,400)
To US 321 Business Sidewalk	-	(18,100)
To West 1st Street	<u>-</u>	<u>(1,108)</u>
Total other financing sources (uses)	<u>(247,400)</u>	<u>33,392</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(708,569)	482,870
Fund balances, July 1	3,573,507	3,088,248
Increase (decrease) in reserve for inventory	<u>(10,647)</u>	<u>2,389</u>
Fund balances, June 30	<u>\$ 2,854,291</u>	<u>\$ 3,573,507</u>

CITY OF NEWTON, NORTH CAROLINA

Exhibit B-3

Page 1 of 8

**General Fund
Comparative Statements of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2002**

	2002		Variance Favorable (Unfavorable)	2001 Actual
	Budget	Actual		
Revenues:				
Ad valorem taxes:				
Current year	\$ 3,418,000	\$ 3,492,863	\$ 74,863	\$ 3,429,275
Prior years	65,900	78,217	12,317	71,843
Interest and penalties	1,000	15,887	14,887	16,173
Tax refunds	<u>(1,000)</u>	<u>(5,302)</u>	<u>(4,302)</u>	<u>(5,877)</u>
Total	<u>3,483,900</u>	<u>3,581,664</u>	<u>97,764</u>	<u>3,511,413</u>
Other taxes and licenses:				
Local option sales tax	2,158,500	1,925,725	(232,775)	2,064,249
Intangibles tax reimbursement	117,750	116,001	(1,749)	116,582
Rural fire district tax	<u>185,150</u>	<u>185,130</u>	<u>(20)</u>	<u>129,864</u>
Total	<u>2,461,400</u>	<u>2,226,856</u>	<u>(234,544)</u>	<u>2,310,695</u>
Unrestricted intergovernmental revenues:				
Payments in lieu of taxes	215,900	215,900	-	197,400
Utility franchise tax	760,200	367,267	(392,933)	755,200
Beer and wine tax	53,600	-	(53,600)	53,940
Senior citizens exemption - 50%	5,450	-	(5,450)	5,469
Inventory tax reimbursement	369,700	183,626	(186,074)	367,911
Food stamp reimbursement	3,700	4,015	315	4,085
Other	<u>34,500</u>	<u>38,137</u>	<u>3,637</u>	<u>51,136</u>
Total	<u>1,443,050</u>	<u>808,946</u>	<u>(634,104)</u>	<u>1,435,140</u>
Restricted intergovernmental revenues:				
Federal asset seizure allocation	5,000	3,776	(1,224)	6,554
Investment earnings on federal asset seizure allocation	50	263	213	485
Other	-	-	-	35,000
Powell Bill State street aid allocation	448,250	442,778	(5,472)	443,775
Investment earnings on Powell Bill allocation	18,050	8,423	(9,627)	26,964
Street assessments on Powell Bill	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,680</u>
Total	<u>471,350</u>	<u>455,239</u>	<u>(16,111)</u>	<u>515,458</u>

cont.

(With Comparative Actual Amounts For the Year Ended June 30, 2001)

CITY OF NEWTON, NORTH CAROLINA

Exhibit B-3

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General Fund
Comparative Statements of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2002
(With Comparative Actual Amounts For the Year Ended June 30, 2001)

	<u>2002</u>		<u>Variance Favorable (Unfavorable)</u>	<u>2001 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Revenues (continued):				
Permits and fees:				
Animal license	\$ 200	\$ 95	\$ (105)	\$ 148
Privilege and peddler's license	300	510	210	375
Local franchise - cable t.v.	<u>87,800</u>	<u>77,916</u>	<u>(9,884)</u>	<u>79,799</u>
Total	<u>88,300</u>	<u>78,521</u>	<u>(9,779)</u>	<u>80,322</u>
Sales and services:				
Supportive court services	4,650	7,953	3,303	5,892
Refuse collection fees	356,400	353,918	(2,482)	356,234
Recreation fees and concessions	86,750	67,270	(19,480)	92,942
Other	<u>32,950</u>	<u>34,978</u>	<u>2,028</u>	<u>42,981</u>
Total	<u>480,750</u>	<u>464,119</u>	<u>(16,631)</u>	<u>498,049</u>
Investment earnings	<u>151,700</u>	<u>99,184</u>	<u>(52,516)</u>	<u>207,878</u>
Miscellaneous:				
Rentals and sale of property	45,450	48,468	3,018	60,512
Other	<u>168,550</u>	<u>552,474</u>	<u>383,924</u>	<u>82,989</u>
Total	<u>214,000</u>	<u>600,942</u>	<u>386,942</u>	<u>143,501</u>
Total revenues	<u>8,794,450</u>	<u>8,315,472</u>	<u>(478,978)</u>	<u>8,702,457</u>

cont.

CITY OF NEWTON, NORTH CAROLINA

Exhibit B-3

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General Fund
Comparative Statements of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2002
(With Comparative Actual Amounts For the Year Ended June 30, 2001)

	2002		Variance Favorable (Unfavorable)	2001 Actual
	Budget	Actual		
Expenditures:				
Current:				
General government:				
Governing body				
Salaries and employee benefits	\$ 38,400	\$ 34,810	\$ 3,590	\$ 33,462
Other operating expenditures	24,450	15,001	9,449	20,022
Interdepartmental charges	<u>(25,350)</u>	<u>(25,350)</u>	<u>-</u>	<u>(10,950)</u>
	<u>37,500</u>	<u>24,461</u>	<u>13,039</u>	<u>42,534</u>
Administrative				
Salaries and employee benefits	258,850	251,752	7,098	244,347
Other operating expenditures	97,850	81,370	16,480	77,440
Interdepartmental charges	<u>(140,000)</u>	<u>(140,000)</u>	<u>-</u>	<u>(33,700)</u>
	<u>216,700</u>	<u>193,122</u>	<u>23,578</u>	<u>288,086</u>
Finance				
Salaries and employee benefits	387,200	373,770	13,430	357,648
Other operating expenditures	230,650	176,354	54,296	176,189
Interdepartmental charges	<u>(249,850)</u>	<u>(249,850)</u>	<u>-</u>	<u>(225,950)</u>
	<u>368,000</u>	<u>300,275</u>	<u>67,726</u>	<u>307,887</u>
Purchasing/Warehouse				
Salaries and employee benefits	79,950	79,446	504	79,004
Other operating expenditures	15,850	9,560	6,290	12,271
Interdepartmental charges	<u>(57,750)</u>	<u>(57,750)</u>	<u>-</u>	<u>(40,500)</u>
	<u>38,050</u>	<u>31,256</u>	<u>6,794</u>	<u>50,775</u>
Technology/MIS				
Salaries and employee benefits	101,400	98,725	2,675	-
Other operating expenditures	110,800	103,622	7,178	133,220
Capital Outlay	27,350	25,885	1,465	-
Interdepartmental charges	<u>(83,200)</u>	<u>(83,200)</u>	<u>-</u>	<u>(77,000)</u>
	<u>156,350</u>	<u>145,032</u>	<u>11,318</u>	<u>56,220</u>
				cont.

General Fund
Comparative Statements of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2002
(With Comparative Actual Amounts For the Year Ended June 30, 2001)

	2002		Variance Favorable (Unfavorable)	2001 Actual
	Budget	Actual		
Expenditures (continued):				
Personnel				
Salaries and employee benefits	\$ 119,950	\$ 117,938	\$ 2,012	\$ 113,593
Other operating expenditures	132,750	94,665	38,085	99,295
Interdepartmental charges	<u>(39,600)</u>	<u>(39,600)</u>	<u>-</u>	<u>(28,750)</u>
	<u>213,100</u>	<u>173,003</u>	<u>40,097</u>	<u>184,138</u>
Planning and code enforcement				
Salaries and employee benefits	261,550	255,269	6,281	236,597
Other operating expenditures	224,100	118,440	105,660	123,645
Capital Outlay	294,600	276,050	18,550	-
Interdepartmental charges	<u>(159,600)</u>	<u>(159,600)</u>	<u>-</u>	<u>(23,550)</u>
	<u>620,650</u>	<u>490,159</u>	<u>130,491</u>	<u>336,691</u>
Municipal building				
Salaries and employee benefits	23,500	22,570	930	63,146
Other operating expenditures	109,150	85,931	23,219	52,963
Capital Outlay	-	-	-	12,653
Interdepartmental charges	<u>(52,350)</u>	<u>(52,350)</u>	<u>-</u>	<u>-</u>
	<u>80,300</u>	<u>56,151</u>	<u>24,149</u>	<u>128,762</u>
Public works administration				
Salaries and employee benefits	172,950	169,761	3,189	167,701
Other operating expenditures	47,750	28,244	19,506	58,736
Capital Outlay	7,200	7,092	108	-
Interdepartmental charges	<u>(89,450)</u>	<u>(89,450)</u>	<u>-</u>	<u>(90,550)</u>
	<u>138,450</u>	<u>115,647</u>	<u>22,803</u>	<u>135,887</u>
Garage				
Salaries and employee benefits	118,500	114,324	4,176	110,484
Other operating expenditures	69,300	39,009	30,291	52,220
Capital Outlay	26,350	23,302	3,048	-
Interdepartmental charges	<u>(24,350)</u>	<u>(24,350)</u>	<u>-</u>	<u>(16,600)</u>
	<u>189,800</u>	<u>152,285</u>	<u>37,515</u>	<u>146,105</u>
				cont.

CITY OF NEWTON, NORTH CAROLINA

Exhibit B-3

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General Fund
Comparative Statements of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2002
(With Comparative Actual Amounts For the Year Ended June 30, 2001)

	2002		Variance Favorable (Unfavorable)	2001 Actual
	Budget	Actual		
Expenditures (continued):				
Downtown public parking				
Other operating expenditures	<u>\$ 11,650</u>	<u>\$ 6,635</u>	<u>\$ 5,015</u>	<u>\$ 10,154</u>
	<u>11,650</u>	<u>6,635</u>	<u>5,015</u>	<u>10,154</u>
 Total general government	 <u>2,070,550</u>	 <u>1,688,026</u>	 <u>382,524</u>	 <u>1,687,240</u>
 Public safety:				
Police				
Salaries and employee benefits	2,002,600	1,976,377	26,223	1,885,382
Other operating expenditures	395,950	277,187	118,763	398,670
Capital Outlay	179,850	179,859	(9)	208,488
Interdepartmental charges	(7,550)	(7,550)	-	(950)
Fire				
Salaries and employee benefits	689,750	685,297	4,453	555,773
Other operating expenditures	156,750	108,306	48,444	102,289
Capital Outlay	11,650	262,500	(250,850)	-
Interdepartmental charges	(25,650)	(25,650)	-	(16,700)
Northside Fire Station				
Capital Outlay	-	115,370	(115,370)	-
County fire district				
Salaries and employee benefits	11,600	11,563	38	6,466
Other operating expenditures	106,650	104,936	1,714	81,828
Capital Outlay	<u>102,100</u>	<u>102,026</u>	<u>74</u>	<u>340,809</u>
 Total public safety	 <u>3,623,700</u>	 <u>3,790,221</u>	 <u>(166,521)</u>	 <u>3,562,055</u>

cont.

CITY OF NEWTON, NORTH CAROLINA

Exhibit B-3

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General Fund
Comparative Statements of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2002
(With Comparative Actual Amounts For the Year Ended June 30, 2001)

	2002			
	Budget	Actual	Variance Favorable (Unfavorable)	2001 Actual
Expenditures (continued):				
Transportation:				
Streets				
Salaries and employee benefits	\$ 110,050	\$ 97,665	\$ 12,385	\$ 106,141
Other operating expenditures	95,550	84,511	11,039	136,454
Capital Outlay	35,000	33,855	1,145	-
Powell Bill assistance				
Salaries and employee benefits	234,150	228,062	6,088	211,594
Other operating expenditures	311,850	286,802	25,048	53,977
Capital Outlay	<u>167,350</u>	<u>160,720</u>	<u>6,630</u>	<u>151,974</u>
Total transportation	<u>953,950</u>	<u>891,614</u>	<u>62,336</u>	<u>660,139</u>
Environmental protection:				
Sanitation				
Salaries and employee benefits	458,100	446,913	11,187	428,140
Other operating expenditures	355,900	312,024	43,876	349,967
Capital Outlay	<u>144,900</u>	<u>144,890</u>	<u>10</u>	<u>118,309</u>
Total enviromental protection	<u>958,900</u>	<u>903,826</u>	<u>55,074</u>	<u>896,416</u>
Cultural and recreational:				
Recreation				
Salaries and employee benefits	445,950	432,216	13,734	420,242
Other operating expenditures	135,550	116,083	19,467	138,015
Capital Outlay	-	-	-	10,576
East Newton recreation				
Salaries and employee benefits	19,350	18,814	536	18,056
Other operating expenditures	49,450	39,358	10,092	43,461
Swimming pool				
Salaries and employee benefits	23,300	16,322	6,978	15,059
Other operating expenditures	34,850	17,189	17,661	16,875

cont.

CITY OF NEWTON, NORTH CAROLINA

Exhibit B-3

Page 7 of 8

General Fund
Comparative Statements of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2002
(With Comparative Actual Amounts For the Year Ended June 30, 2001)

	2002		Variance Favorable (Unfavorable)	2001 Actual
	Budget	Actual		
Expenditures (continued):				
Parks				
Salaries and employee benefits	\$ 20,000	\$ 7,387	\$ 12,613	\$ 13,787
Other operating expenditures	89,150	61,581	27,569	45,352
Capital Outlay	37,200	31,743	5,457	44,380
Community appearance				
Salaries and employee benefits	130,800	128,421	2,379	119,816
Other operating expenditures	219,950	17,002	202,948	14,924
Capital Outlay	16,550	16,264	286	8,474
Special appropriations				
Other operating expenditures	350,300	339,427	10,873	269,240
Indepartmental charges	<u>(270,650)</u>	<u>(270,650)</u>	<u>-</u>	<u>(195,000)</u>
Total cultural and recreational	<u>1,301,750</u>	<u>971,157</u>	<u>330,593</u>	<u>983,259</u>
Contingency	<u>6,550</u>	<u>-</u>	<u>6,550</u>	<u>-</u>
Debt service:				
Principal retirement	503,350	475,085	28,265	387,848
Interest and fees	<u>33,800</u>	<u>56,711</u>	<u>(22,911)</u>	<u>76,024</u>
Total debt service	<u>537,150</u>	<u>531,796</u>	<u>5,354</u>	<u>463,871</u>
Total expenditures	<u>9,452,550</u>	<u>8,776,641</u>	<u>675,909</u>	<u>8,252,981</u>
Revenues over (under) expenditures	<u>(658,100)</u>	<u>(461,169)</u>	<u>196,931</u>	<u>449,477</u>

cont.

General Fund
Comparative Statements of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2002

	2002		Variance	2001
	Budget	Actual	Favorable (Unfavorable)	Actual
Other Financing Sources (Uses):				
Appropriated fund balance				
- General Fund	\$ 658,450	\$ -	\$ (658,450)	\$ -
- Powell Bill	247,050	-	(247,050)	-
Proceeds from borrowing	355,000	355,000	-	655,000
Operating transfers - in (out):				
To Water and Wastewater Fund	(602,400)	(602,400)	-	(602,400)
To Capital Project Funds:				
US 321 Business Sidewalk	-	-	-	(18,100)
West 1st Street	-	-	-	(1,108)
Total other financing sources (uses)	<u>658,100</u>	<u>(247,400)</u>	<u>(905,500)</u>	<u>33,392</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	(708,569)	<u>\$ (708,569)</u>	482,870
Fund balances, July 1		3,573,507		3,088,248
Increase (decrease) in reserve for inventory		<u>(10,647)</u>		<u>2,389</u>
Fund balances, June 30		<u>\$ 2,854,291</u>		<u>\$ 3,573,507</u>

(With Comparative Actual Amounts For the Year Ended June 30, 2001)



SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purpose.

***Rowe Subdivision Infrastructure Project* - This fund is used to account for federal grant money received from the Housing and Urban Development for Community Development Block Grants under the Small Cities Program for water and wastewater transmission lines to serve low and moderate income neighborhoods.**

***Image Industries/Economic Development Project* - This fund is used to account for the Federal grant monies received from the Housing and Urban Development for Community Development Block Grants under the Small Cities Program for economic development to create low and moderate income jobs by existing and/or new industry.**

***Prodelin Corporation Economic Development Project* - This fund is used to account for the Federal grant monies received from the Housing and Urban Development for Community Development Block Grants under the Small Cities Program for economic development to create low and moderate income jobs by existing and/or new industry.**

***Infrastructure Water Hook-Up Project* - This fund is used to account for federal grant money received from the Housing and Urban Development for Community Development Block Grants under the Small Cities Program for water and or sewer taps and connections for low and moderate income households.**

***2000 City of Newton Urgent Repair Project* - This fund is used to account for State grant monies received from N.C. Housing Financial Agency for single family urgent need repairs.**

CITY OF NEWTON, NORTH CAROLINA

Exhibit C-1

**Special Revenue Funds
Combining Balance Sheet
June 30, 2002**

	Rowe Subdivision Infrastructure Project	Image Industries/ Ecomomic Development Project	Prodelin Corporation Ecomomic Development Project	Infra- Structure Water Hook-Up Project	2000 City of Newton Urgent Repair Project	Totals	
Assets						2002	2001
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 4,773	\$ 4,773	\$ 152,913
Accounts receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,258</u>	<u>-</u>	<u>10,258</u>	<u>-</u>
Total assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,258</u></u>	<u><u>\$ 4,773</u></u>	<u><u>\$ 15,031</u></u>	<u><u>\$ 152,913</u></u>
Liabilities and Fund Equity							
Accounts payable	\$ -	\$ -	\$ -	\$ 3,858	\$ 847	\$ 4,705	\$ 91,129
Due to other fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,400</u>	<u>-</u>	<u>6,400</u>	<u>-</u>
Total liabilities	-	-	-	10,258	847	11,105	91,129
Fund balances:							
Unreserved - undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,926</u>	<u>3,926</u>	<u>61,783</u>
Total liabilities and fund equity	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,258</u></u>	<u><u>\$ 4,773</u></u>	<u><u>\$ 15,031</u></u>	<u><u>\$ 152,913</u></u>

(With Comparative Totals for the Year Ended June 30, 2001)

Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2002
(With Comparative Totals for the Year Ended June 30, 2001)

	Rowe Subdivision Infrastructure Project	Image Industries/ Economic Development Project	Prodelin Corporation Economic Development Project	Infra- Structure Water Hook-Up Project	2000 City of Newton Urgent Repair Project	Totals	
						2002	2001
Revenues:							
Grant	\$ 37,518	\$ -	\$ 121,764	\$ 25,889	\$ -	\$ 185,171	\$ 354,379
Interest income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>494</u>	<u>494</u>	<u>-</u>
Total revenues	<u>37,518</u>	<u>-</u>	<u>121,764</u>	<u>25,889</u>	<u>494</u>	<u>185,665</u>	<u>354,379</u>
Expenditures:							
Capital outlay	17,880	-	134,021	18,794	28,365	199,060	374,297
Administration: WPCOG	<u>2,077</u>	<u>-</u>	<u>9,894</u>	<u>7,095</u>	<u>5,703</u>	<u>24,769</u>	<u>33,246</u>
Total expenditures	<u>19,957</u>	<u>-</u>	<u>143,915</u>	<u>25,889</u>	<u>34,068</u>	<u>223,829</u>	<u>407,543</u>
Excess of revenues over (under) expenditures	17,561	-	(22,151)	-	(33,574)	(38,164)	(53,164)
Other financing sources (uses) - operating transfers in - Water and Wastewater Fund	(19,418)	(275)	-	-	-	(19,693)	43,000
Fund balances, July 1	<u>1,857</u>	<u>275</u>	<u>22,151</u>	<u>-</u>	<u>37,500</u>	<u>61,783</u>	<u>71,948</u>
Fund balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,926</u></u>	<u><u>\$ 3,926</u></u>	<u><u>\$ 61,783</u></u>

**Special Revenue Funds
Rowe Subdivision Infrastructure Project
Comparative Balance Sheets
June 30, 2002 and 2001**

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and investments	\$ -	\$ 89,486
Total assets	<u>\$ -</u>	<u>\$ 89,486</u>
<u>Liabilities and Fund Equity</u>		
Accounts payable	\$ -	\$ 87,630
Fund balance:		
Unreserved - undesignated	-	1,857
Total liabilities and fund equity	<u>\$ -</u>	<u>\$ 89,486</u>

Project complete at June 30, 2002.

Special Revenue Funds
Rowe Subdivision Infrastructure Project
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
From Inception and for the Year Ended June 30, 2002

	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Grant	<u>\$ 532,000</u>	<u>\$ 494,482</u>	<u>\$ 37,518</u>	<u>\$ 532,000</u>
Total revenues	<u>532,000</u>	<u>494,482</u>	<u>37,518</u>	<u>532,000</u>
Expenditures:				
Capital outlay:				
Sanitary sewer	689,700	669,888	7,792	677,681
Water lines	52,600	35,113	10,088	45,201
Administration:				
WPCOG	<u>54,000</u>	<u>51,923</u>	<u>2,077</u>	<u>54,000</u>
Total expenditures	<u>796,300</u>	<u>756,925</u>	<u>19,957</u>	<u>776,882</u>
Excess of revenues over (under) expenditures	(264,300)	(262,443)	17,562	(244,882)
Other financing sources (uses) - operating transfers in - Water and Wastewater Fund	<u>264,300</u>	<u>264,300</u>	<u>(19,418)</u>	<u>244,882</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,857</u>	(1,857)	<u>\$ -</u>
Fund balance, July 1			<u>1,857</u>	
Fund balance, June 30			<u>\$ -</u>	

Special Revenue Funds
Image Industries/Economic Development Project
Comparative Balance Sheets
June 30, 2002 and 2001

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and investments	\$ -	\$ 275
Total assets	<u>\$ -</u>	<u>\$ 275</u>
<u>Liabilities and Fund Equity</u>		
Accounts payable	\$ -	\$ -
Fund balance:		
Unreserved - undesignated	-	275
Total liabilities and fund equity	<u>\$ -</u>	<u>\$ 275</u>

Project complete at June 30, 2002.

Special Revenue Funds
Image Industries/Economic Development Project
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and for the Year Ended June 30, 2002

	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Grant	<u>\$ 60,550</u>	<u>\$ 60,555</u>	<u>\$ -</u>	<u>\$ 60,555</u>
Total revenues	<u>60,550</u>	<u>60,555</u>	<u>-</u>	<u>60,555</u>
Expenditures:				
Capital outlay:				
Sanitary sewer	61,750	61,740	-	61,740
Water lines	11,000	10,725	-	10,725
Administration:				
WPCOG	<u>8,000</u>	<u>8,015</u>	<u>-</u>	<u>8,015</u>
Total expenditures	<u>80,750</u>	<u>80,480</u>	<u>-</u>	<u>80,480</u>
Excess of revenues over (under) expenditures	(20,200)	(19,925)	-	(19,925)
Other financing sources (uses) - operating transfers in - Water and Wastewater Fund	<u>20,200</u>	<u>20,200</u>	<u>(275)</u>	<u>19,925</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 275</u>	(275)	<u>\$ -</u>
Fund balance, July 1			<u>275</u>	
Fund balance, June 30			<u>\$ -</u>	

Special Revenue Funds
Prodelin Corporation Economic Development Project
Comparative Balance Sheets
June 30, 2002 and 2001

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and investments	\$ -	\$ 25,651
Total assets	<u>\$ -</u>	<u>\$ 25,651</u>
<u>Liabilities and Fund Equity</u>		
Accounts payable	\$ -	\$ 3,500
Fund balance:		
Unreserved - undesignated	<u>-</u>	<u>22,151</u>
Total liabilities and fund equity	<u>\$ -</u>	<u>\$ 25,651</u>

Project complete at June 30, 2002.

Special Revenue Funds
Prodelin Corporation Economic Development Project
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and for the Year Ended June 30, 2002

	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Grant	<u>\$ 129,000</u>	<u>\$ 7,236</u>	<u>\$ 121,764</u>	<u>\$ 129,000</u>
Total revenues	<u>129,000</u>	<u>7,236</u>	<u>121,764</u>	<u>129,000</u>
Expenditures:				
Capital outlay:				
Roads and paving	21,350	50	21,300	21,350
Sanitary sewer	99,700	17,429	82,271	99,700
Water lines	30,850	400	30,450	30,850
Administration:				
WPCOG	<u>20,100</u>	<u>10,206</u>	<u>9,894</u>	<u>20,100</u>
Total expenditures	<u>172,000</u>	<u>28,085</u>	<u>143,915</u>	<u>172,000</u>
Excess of revenues over (under) expenditures	(43,000)	(20,849)	(22,151)	(43,000)
Other financing sources (uses) - operating transfers in - Water and Wastewater Fund	<u>43,000</u>	<u>43,000</u>	<u>-</u>	<u>43,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 22,151</u>	(22,151)	<u>\$ -</u>
Fund balance, July 1			<u>22,151</u>	
Fund balance, June 30			<u>\$ -</u>	

**Special Revenue Funds
Infrastructure Water Hook-Up Project
Comparative Balance Sheets
June 30, 2002 and 2001**

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Accounts receivable	<u>\$ 10,258</u>	<u>\$ -</u>
Total assets	<u><u>\$ 10,258</u></u>	<u><u>\$ -</u></u>
<u>Liabilities and Fund Equity</u>		
Accounts payable	\$ 3,858	\$ -
Due to other fund	<u>6,400</u>	<u>-</u>
Total liabilities	10,258	-
Fund balance:		
Unreserved - undesignated	<u>-</u>	<u>-</u>
Total liabilities and fund equity	<u><u>\$ 10,258</u></u>	<u><u>\$ -</u></u>

Special Revenue Funds
Infrastructure Water Hook-Up Project
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and for the Year Ended June 30, 2002

	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Grant	\$ 75,000	\$ -	\$ 25,889	\$ 25,889
Total revenues	75,000	-	25,889	25,889
Expenditures:				
Capital outlay:				
Water lines	67,500	-	18,794	18,794
Administration:				
WPCOG	7,500	-	7,095	7,095
Total expenditures	75,000	-	25,889	25,889
Excess of revenues over (under) expenditures	-	-	-	-
Other financing sources (uses) - operating transfers in - Water and Wastewater Fund	-	-	-	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	-	\$ -
Fund balance, July 1			-	
Fund balance, June 30			\$ -	

Special Revenue Funds
2000 City of Newton Urgent Repair Project
Comparative Balance Sheets
June 30, 2002 and 2001

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and investments	<u>\$ 4,773</u>	<u>\$ 37,500</u>
Total assets	<u><u>\$ 4,773</u></u>	<u><u>\$ 37,500</u></u>
<u>Liabilities and Fund Equity</u>		
Accounts payable	\$ 847	\$ -
Fund balance:		
Unreserved - undesignated	<u>3,926</u>	<u>37,500</u>
Total liabilities and fund equity	<u><u>\$ 4,773</u></u>	<u><u>\$ 37,500</u></u>

Special Revenue Funds
2000 City of Newton Urgent Repair Project
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and for the Year Ended June 30, 2002

	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Grant	\$ 75,000	\$ 37,500	\$ -	\$ 37,500
Interest income	<u>-</u>	<u>-</u>	<u>494</u>	<u>494</u>
Total revenues	<u>75,000</u>	<u>37,500</u>	<u>494</u>	<u>37,994</u>
Expenditures:				
Capital outlay:				
Rehabilitation	65,100	-	28,365	28,365
Administration:				
WPCOG	<u>9,900</u>	<u>-</u>	<u>5,703</u>	<u>5,703</u>
Total expenditures	<u>75,000</u>	<u>-</u>	<u>34,068</u>	<u>34,068</u>
Excess of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 37,500</u>	(33,574)	<u>\$ 3,926</u>
Fund balance, July 1			<u>37,500</u>	
Fund balance, June 30			<u>\$ 3,926</u>	



CAPITAL PROJECTS FUNDS

Capital Projects Funds account for funds to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Downtown Facade Improvement Capital Project Fund - This fund is used to account for improvements in the downtown area.

US 321 Business Sidewalk Capital Project Fund - This fund is used to account for construction of sidewalks along US 321 Business.

CITY OF NEWTON, NORTH CAROLINA

Exhibit D-1

Capital Projects Funds
Combining Balance Sheet
June 30, 2002

(With Comparative Totals at June 30, 2001)

	Downtown Facade Improvement Capital Project Fund	US 321 Business Sidewalk Capital Project Fund	<u>Totals</u>	
<u>Assets</u>			<u>2002</u>	<u>2001</u>
Cash and investments	\$ 5,348	\$ 8,714	\$ 14,062	\$ 26,448
Total assets	<u>\$ 5,348</u>	<u>\$ 8,714</u>	<u>\$ 14,062</u>	<u>\$ 26,448</u>
<u>Liabilities and Fund Equity</u>				
Accounts payable	\$ -	\$ 1,240	\$ 1,240	\$ 3,000
Fund balance:				
Unreserved - undesignated	<u>5,348</u>	<u>7,474</u>	<u>12,822</u>	<u>23,448</u>
Total liabilities and fund equity	<u>\$ 5,348</u>	<u>\$ 8,714</u>	<u>\$ 14,062</u>	<u>\$ 26,448</u>

Capital Projects Funds
Combining Statement of Revenues, Expenditures and Changes
In Fund Balances
For the Year Ended June 30, 2002
(With Comparative Totals for the Year Ended June 30, 2001)

	Downtown Facade Improvement Capital Project Fund	US 321 Business Sidewalk Capital Project Fund	<u>Totals</u>	
			<u>2002</u>	<u>2001</u>
Revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Grant to property owner	-	-	-	5,505
Construction	-	10,626	10,626	200
Total expenditures	-	10,626	10,626	5,705
Excess of revenues over (under) expenditures	-	(10,626)	(10,626)	(5,705)
Other financing sources (uses):				
Operating transfers in (out):				
General Fund	-	-	-	19,208
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	(10,626)	(10,626)	13,503
Fund balances, July 1	5,348	18,100	23,448	9,945
Fund balances, June 30	<u>\$ 5,348</u>	<u>\$ 7,474</u>	<u>\$ 12,822</u>	<u>\$ 23,448</u>

CITY OF NEWTON, NORTH CAROLINA**Exhibit D-3****Downtown Facade Improvement Capital Project Fund
Comparative Balance Sheets
June 30, 2002 and 2001**

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and investments	<u>\$ 5,348</u>	<u>\$ 8,348</u>
<u>Liabilities and Fund Equity</u>		
Liabilities	\$ -	\$ 3,000
Fund balance:		
Unreserved - undesignated	<u>5,348</u>	<u>5,348</u>
Total liabilities and fund equity	<u>\$ 5,348</u>	<u>\$ 8,348</u>

CITY OF NEWTON, NORTH CAROLINA

Exhibit D-4

**Downtown Facade Improvement Capital Project Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
From Inception and for the Year Ended June 30, 2002**

	Project Authorization	Prior Years	Current Year	Total to Date
Revenues:				
Restricted contributions	<u>\$ 9,800</u>	<u>\$ 9,800</u>	<u>\$ -</u>	<u>\$ 9,800</u>
Expenditures:				
Professional services	1,000	1,000	-	1,000
Grant to property owners	<u>38,800</u>	<u>33,452</u>	<u>-</u>	<u>33,452</u>
Total expenditures	<u>39,800</u>	<u>34,452</u>	<u>-</u>	<u>34,452</u>
Excess of revenues over (under) expenditures	(30,000)	(24,652)	-	(24,652)
Other financing sources (uses) - operating transfers in - General Fund	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 5,348</u>	-	<u>\$ 5,348</u>
Fund balance, July 1			<u>5,348</u>	
Fund balance, June 30			<u>\$ 5,348</u>	

CITY OF NEWTON, NORTH CAROLINA**Exhibit D-5****US 321 Business Sidewalk Capital Project Fund
Comparative Balance Sheets
June 30, 2002 and 2001**

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and investments	<u>\$ 8,714</u>	<u>\$ 18,100</u>
<u>Liabilities and Fund Equity</u>		
Accounts payable	\$ 1,240	\$ -
Fund balance:		
Unreserved - undesignated	<u>7,474</u>	<u>18,100</u>
Total liabilities and fund equity	<u>\$ 8,714</u>	<u>\$ 18,100</u>

CITY OF NEWTON, NORTH CAROLINA

Exhibit D-6

US 321 Business Sidewalk Capital Project Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
From Inception and for the Year Ended June 30, 2002

	Project Authorization	Prior Years	Current Year	Total to Date
Revenues	<u>\$ 68,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:				
Construction	<u>86,500</u>	<u>-</u>	<u>10,626</u>	<u>10,626</u>
Total expenditures	<u>86,500</u>	<u>-</u>	<u>10,626</u>	<u>10,626</u>
Excess of revenues over (under) expenditures	(18,100)	-	(10,626)	(10,626)
Other financing sources (uses) - operating transfers in - General Fund	<u>18,100</u>	<u>18,100</u>	<u>-</u>	<u>18,100</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 18,100</u>	(10,626)	<u>\$ 7,474</u>
Fund balance, July 1			<u>18,100</u>	
Fund balance, June 30			<u>\$ 7,474</u>	



ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the government's governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's governing body has decided that periodic determination of net income is appropriate for accountability purposes.

***Water and Wastewater Fund* - This fund is used to account for the activities associated with the production, distribution and transmission of potable water by the City to its users and for the operation and maintenance of the City's sewer and surface drainage systems.**

***Electric Fund* - This fund is used to account for the activities associated with the distribution and transmission of electricity by the City to its users.**

**Enterprise Funds
Combining Balance Sheet**

June 30, 2002

(With Comparative Totals at June 30, 2001)

	Water and Wastewater Fund	Electric Fund	Totals	
Assets			2002	2001
Current assets:				
Cash and cash equivalents	\$ 2,398,036	\$ 2,047,117	\$ 4,445,154	\$ 4,487,288
Accounts receivable, net	425,793	793,044	1,218,837	1,064,483
Interest receivable	6,100	5,183	11,283	35,090
Due from other funds	6,400	402,368	408,768	402,368
Inventories	132,543	298,975	431,518	503,988
Restricted cash and cash equivalents	<u>59,292</u>	<u> </u>	<u>59,292</u>	<u>2,027,244</u>
Total current assets	<u>3,028,164</u>	<u>3,546,688</u>	<u>6,574,851</u>	<u>8,520,461</u>
Fixed assets:				
Land and improvements	218,566	5,000	223,566	218,109
Buildings and improvements	19,337,120	500,567	19,837,687	19,798,723
Distribution systems	17,060,809	8,188,762	25,249,571	23,675,056
Furniture and maintenance equipment	655,032	441,377	1,096,409	1,157,752
Vehicles	494,943	496,783	991,726	779,418
Construction in progress	2,092,045	208,866	2,300,911	456,878
Less accumulated depreciation	<u>(15,121,936)</u>	<u>(3,766,132)</u>	<u>(18,888,068)</u>	<u>(17,720,960)</u>
Fixed assets, net	<u>24,736,579</u>	<u>6,075,223</u>	<u>30,811,802</u>	<u>28,364,976</u>
Total assets	<u>\$ 27,764,743</u>	<u>\$ 9,621,911</u>	<u>\$ 37,386,653</u>	<u>\$ 36,885,437</u>
Liabilities and Fund Equity				
Current liabilities:				
Accounts payable and accrued expenses	\$ 222,675	\$ 572,906	\$ 795,581	\$ 636,837
Due to other government	11,418	-	11,418	28,835
Customer deposits	48,160	102,246	150,406	157,657
Due to other funds	402,368	-	402,368	402,368
General obligation bonds payable - current	474,340	-	474,340	487,817
Discount on bond issuance - net	(3,517)	-	(3,517)	(3,875)
Deferred loss on refunding - net	(186,719)	-	(186,719)	(205,707)
Loans payable - current	67,178	-	67,178	90,558
Installment purchase payable - current	<u>296,000</u>	<u>404,709</u>	<u>700,710</u>	<u>649,757</u>
Total current liabilities	1,331,903	1,079,861	2,411,764	2,244,246
Noncurrent liabilities:				
General obligation bonds payable	3,636,270	-	3,636,270	4,110,611
Loans payable	348,481	-	348,481	415,659
Installment purchase payable	3,080,326	2,311,212	5,391,538	5,905,248
Accrued vacation pay	<u>68,114</u>	<u>27,480</u>	<u>95,594</u>	<u>88,629</u>
Total liabilities	<u>8,465,094</u>	<u>3,418,553</u>	<u>11,883,647</u>	<u>12,764,393</u>
Fund equity:				
Contributed capital	9,916,268	77,000	9,993,268	9,993,268
Retained earnings - unreserved	<u>9,383,381</u>	<u>6,126,357</u>	<u>15,509,738</u>	<u>14,127,777</u>
Total fund equity	<u>19,299,649</u>	<u>6,203,357</u>	<u>25,503,006</u>	<u>24,121,045</u>
Total liabilities and fund equity	<u>\$ 27,764,743</u>	<u>\$ 9,621,911</u>	<u>\$ 37,386,653</u>	<u>\$ 36,885,437</u>

Enterprise Funds
Combining Statement of Revenues, Expenses and Changes
In Retained Earnings
For the Year Ended June 30, 2002
(With Comparative Totals for the Year Ended June 30, 2001)

	Water and Wastewater Fund	Electric Fund	Totals 2002	2001
Operating Revenues:				
Charges for services	\$ 3,724,616	\$ 7,907,121	\$ 11,631,737	\$ 11,220,725
Other operating revenues	<u>387,558</u>	<u>289,384</u>	<u>676,941</u>	<u>619,801</u>
Total operating revenues	<u>4,112,174</u>	<u>8,196,504</u>	<u>12,308,678</u>	<u>11,840,526</u>
Operating Expenses:				
Power for resale	-	5,935,799	5,935,799	5,614,761
Operations	2,072,094	1,289,045	3,361,139	3,377,674
Maintenance	565,956	-	565,956	684,244
Administration	514,900	710,450	1,225,350	760,200
Contingency	-	-	-	226,000
Depreciation	<u>906,522</u>	<u>411,432</u>	<u>1,317,954</u>	<u>1,665,581</u>
Total operating expenses	<u>4,059,471</u>	<u>8,346,727</u>	<u>12,406,198</u>	<u>12,328,461</u>
Operating income (loss)	<u>52,703</u>	<u>(150,222)</u>	<u>(97,520)</u>	<u>(487,935)</u>
Nonoperating Revenues (Expenses):				
Sales tax	-	226,147	226,147	218,704
Investment earnings	91,305	67,841	159,146	388,215
Interest expense	(378,782)	(118,042)	(496,824)	(532,369)
Gain (loss) on disposal of fixed assets	<u>-</u>	<u>(36,078)</u>	<u>(36,078)</u>	<u>(220,835)</u>
Nonoperating revenues (expenses), net	<u>(287,476)</u>	<u>139,867</u>	<u>(147,609)</u>	<u>(146,284)</u>
Income (loss) before operating transfers and capital contributions	(234,774)	(10,355)	(245,129)	(634,219)
Transfers (to) other funds:				
General Fund	602,400	-	602,400	602,400
Special Revenue Fund	19,693	-	19,693	(43,000)
Capital Projects	-	-	-	-
Capital contributions	<u>1,004,997</u>	<u>-</u>	<u>1,004,997</u>	<u>-</u>
Net income (loss)	1,392,316	(10,355)	1,381,961	(74,819)
Retained earnings, July 1	<u>7,991,065</u>	<u>6,136,712</u>	<u>14,127,777</u>	<u>14,202,596</u>
Retained earnings, June 30	<u><u>\$ 9,383,381</u></u>	<u><u>\$ 6,126,357</u></u>	<u><u>\$ 15,509,738</u></u>	<u><u>\$ 14,127,777</u></u>

Enterprise Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2002

	Water and Wastewater Fund	Electric Fund	Totals	
			2002	2001
Cash Flows From Operating Activities:				
Operating income (loss)	\$ 52,703	\$ (150,222)	\$ (97,519)	\$ (487,935)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	906,522	411,435	1,317,957	1,665,581
Change in assets and liabilities:				
Accounts and interest receivable	(17,429)	(113,120)	(130,549)	182,700
Due to (from) other funds	(6,400)	-	(6,400)	-
Due to (from) other governmental agencies	(17,417)	-	(17,417)	18,785
Inventories	4,128	68,342	72,470	(82,396)
Accounts payable/accrued expenses	121,852	36,893	158,745	(268,799)
Customer deposits	(1,809)	(5,442)	(7,251)	3,962
Accrued vacation pay	<u>9,201</u>	<u>(2,236)</u>	<u>6,965</u>	<u>(5,778)</u>
Net cash provided by (used in) operating activities	<u>1,051,351</u>	<u>245,650</u>	<u>1,297,001</u>	<u>1,026,120</u>
Cash Flows From Non-Capital Financing Activities:				
Operating transfers - in (out)	<u>622,093</u>	<u>-</u>	<u>622,093</u>	<u>559,400</u>
Cash Flows From Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(1,865,247)	(930,616)	(2,795,863)	(876,406)
Sales tax	-	226,147	226,147	218,704
Proceeds from disposal of fixed assets	-	-	-	3,702
(Increase) decrease in restricted cash	1,881,102	86,850	1,967,952	681,861
Payments of general obligation bonds, loans and installment purchase payable	(857,649)	(370,485)	(1,228,134)	(1,169,265)
Interest paid on general obligation bonds, loans and installment purchase payable	(359,436)	(118,042)	(477,478)	(513,023)
Proceeds from issuance of general obligation bonds, loans and installment purchases	<u>50,000</u>	<u>137,000</u>	<u>187,000</u>	<u>265,000</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,151,230)</u>	<u>(969,146)</u>	<u>(2,120,376)</u>	<u>(1,389,427)</u>

cont.

(With Comparative Totals for the Year Ended June 30, 2001)

CITY OF NEWTON, NORTH CAROLINA

Exhibit E-3, cont.

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Enterprise Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2002
(With Comparative Totals for the Year Ended June 30, 2001)

	Water and Wastewater Fund	Electric Fund	Totals	
			2002	2001
Cash Flows From Investing Activities:				
Interest on investments	\$ 91,305	\$ 67,841	\$ 159,146	\$ 388,215
Net increase (decrease) in cash and cash equivalents	613,519	(655,655)	(42,136)	584,308
Cash and cash equivalents at beginning of year	1,784,517	2,702,772	4,487,289	3,902,981
Cash and cash equivalents at end of year	<u>\$ 2,398,036</u>	<u>\$ 2,047,117</u>	<u>\$ 4,445,154</u>	<u>\$ 4,487,288</u>
Supplemental Schedule of Non Cash Financing Activities:				
Amortization of discount on refunded debt	<u>\$ 358</u>	<u>\$ -</u>	<u>\$ 358</u>	<u>\$ 358</u>
Amortization of loss on refunded debt	<u>\$ 18,988</u>	<u>\$ -</u>	<u>\$ 18,988</u>	<u>\$ 18,988</u>
Acquisition of fixed assets through contribution of capital	<u>\$ 1,004,997</u>	<u>\$ -</u>	<u>\$ 1,004,997</u>	<u>\$ -</u>
Acquisition of fixed assets through transfer from other fund	<u>\$ 110,427</u>	<u>\$ -</u>	<u>\$ 110,427</u>	<u>\$ -</u>
Decrease in fixed assets due to transfer to other fund	<u>\$ -</u>	<u>\$ 45,726</u>	<u>\$ 45,726</u>	<u>\$ -</u>

**Water and Wastewater Fund
Comparative Balance Sheets
June 30, 2002 and 2001**

Assets	2002	2001
Current assets:		
Cash and cash equivalents	\$ 2,398,036	\$ 1,784,517
Accounts receivable, net	425,793	400,212
Interest receivable	6,100	14,252
Due from other funds	6,400	-
Inventories	132,543	136,671
Restricted cash and cash equivalents	<u>59,292</u>	<u>1,940,394</u>
Total current assets	<u>3,028,164</u>	<u>4,276,045</u>
Fixed assets:		
Land and improvements	218,566	213,109
Buildings and improvements	19,337,120	19,298,156
Distribution system	17,060,809	16,055,812
Furniture and maintenance equipment	655,032	633,695
Vehicles	494,943	375,708
Construction in progress	2,092,045	370,364
Less accumulated depreciation	<u>(15,121,936)</u>	<u>(14,173,986)</u>
Fixed assets, net	<u>24,736,579</u>	<u>22,772,857</u>
Total assets	<u><u>\$ 27,764,743</u></u>	<u><u>\$ 27,048,902</u></u>
Liabilities and Fund Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 222,675	\$ 100,823
Due to other government	11,418	28,835
Customer deposits	48,160	49,969
Due to other funds	402,368	402,368
General obligation bonds payable - current	474,340	487,817
Discount on bond issuance - net of accumulated amortization of \$1,103	(3,517)	(3,875)
Deferred loss on refunding - net of accumulated amortization of \$58,547	(186,719)	(205,707)
Loans payable - current	67,178	90,558
Installment purchase payable - current	<u>296,000</u>	<u>279,272</u>
Total current liabilities	1,331,903	1,230,060
Noncurrent liabilities:		
General obligation bonds payable	3,636,270	4,110,611
Loans payable	348,481	415,659
Installment purchase payable	3,080,326	3,326,327
Accrued vacation pay	<u>68,114</u>	<u>58,913</u>
Total liabilities	<u>8,465,094</u>	<u>9,141,570</u>
Fund equity:		
Contributed capital	9,916,268	9,916,268
Retained earnings - unreserved	<u>9,383,381</u>	<u>7,991,065</u>
Total fund equity	<u>19,299,649</u>	<u>17,907,332</u>
Total liabilities and fund equity	<u><u>\$ 27,764,743</u></u>	<u><u>\$ 27,048,902</u></u>

CITY OF NEWTON, NORTH CAROLINA**Exhibit E-5****Page 1 of 2**

Water and Wastewater Fund
Schedule of Revenues, Expenditures and Supplemental Budget
Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2002
(With Comparative Actual Amounts for the Year Ended June 30, 2001)

	2002		Variance	2001
	Budget	Actual	Favorable	Actual
			(Unfavorable)	
Revenues:				
Operating revenues:				
Charges for services	\$ 3,806,950	\$ 3,724,616	\$ (82,334)	\$ 3,699,583
Other	<u>234,900</u>	<u>387,558</u>	<u>152,658</u>	<u>310,103</u>
Total operating revenues	<u>4,041,850</u>	<u>4,112,174</u>	<u>70,324</u>	<u>4,009,685</u>
Nonoperating revenues:				
Interest earned	<u>84,900</u>	<u>91,305</u>	<u>6,405</u>	<u>201,244</u>
Total nonoperating revenues	<u>84,900</u>	<u>91,305</u>	<u>6,405</u>	<u>201,244</u>
Total revenues	<u>4,126,750</u>	<u>4,203,479</u>	<u>76,729</u>	<u>4,210,929</u>
Expenditures:				
Operations	2,238,300	2,081,295	157,005	2,144,505
Maintenance	715,850	565,956	149,894	684,244
Administration	514,900	514,900	-	290,950
Contingency	1,300	-	1,300	226,000
Budgetary appropriations:				
Appropriated fund balance	(56,500)	-	(56,500)	-
Proceeds from borrowing	(50,000)	(50,000)	-	(165,000)
Debt principal	857,650	857,648	2	824,697
Interest	360,100	378,782	(18,682)	405,008
Increase (decrease) in inventory	-	(4,128)	4,128	(19,602)
Capital outlay	<u>147,550</u>	<u>138,109</u>	<u>9,441</u>	<u>279,893</u>
Total expenditures	<u>4,729,150</u>	<u>4,482,561</u>	<u>246,589</u>	<u>4,670,695</u>
Excess of revenues over (under) expenditures	<u>(602,400)</u>	<u>(279,081)</u>	<u>323,319</u>	<u>(459,765)</u>

cont.

Water and Wastewater Fund
Schedule of Revenues, Expenditures and Supplemental Budget
Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2002
(With Comparative Actual Amounts for the Year Ended June 30, 2001)

	2002		Variance	2001
	Budget	Actual	Favorable (Unfavorable)	Actual
Other financing sources (uses):				
Transfer from (to) General Fund	\$ 602,400	\$ 602,400	\$ -	\$ 602,400
Transfer from (to) Special Revenue Fund	-	-	-	(43,000)
Transfer from (to) Water and Wastewater Capital Projects:				
Rowe Subdivision Infrastructure	-	19,418	19,418	-
Image Industries/Economic Development	-	275	275	-
Water and Wastewater	-	-	-	(37,500)
Startown Subdivision	-	-	-	89,506
Hwy 321/Hwy 10 Project	-	-	-	(200,000)
Total other financing sources (uses)	<u>602,400</u>	<u>622,093</u>	<u>19,693</u>	<u>411,406</u>
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	<u>\$ -</u>	343,012	<u>\$ 343,012</u>	(48,359)

Reconciliation of Modified to Full Accrual**Basis - Add (deduct):**

Cost of expenditures which were capitalized	138,109	279,893
Payment of debt principal	857,648	824,697
(Increase) decrease in accrued vacation pay	9,201	8,818
Increase (decrease) in inventory	(4,128)	(19,602)
Proceeds from borrowing	(50,000)	(165,000)
Contribution of capital	1,004,997	-
Depreciation	(906,522)	(1,285,287)
Gain (loss) on disposal of fixed assets	-	(146,151)
Transfer to Water and Wastewater Capital Projects	<u>-</u>	<u>147,994</u>
Income (loss) before operating transfers (Exhibit D-2)	<u>\$ 1,392,316</u>	<u>\$ (402,997)</u>

NOTE: This schedule is included to show budgetary compliance with the legally adopted budget.

Water and Wastewater Fund
Comparative Statements of Cash Flows
For the Years Ended June 30, 2002 and 2001

	2002	2001
Cash Flows From Operating Activities:		
Operating income (loss)	\$ 52,703	\$ (612,483)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	906,522	1,285,287
Changes in assets and liabilities:		
Accounts and interest receivable	(17,429)	72,709
Due to (from) other funds	(6,400)	-
Due to (from) other governmental agencies	(17,417)	18,785
Inventories	4,128	19,602
Accounts payable and accrued expenses	121,852	(95,387)
Customer deposits	(1,809)	7,022
Accrued vacation pay	<u>9,201</u>	<u>(8,818)</u>
Net cash provided by (used in) operating activities	<u>1,051,351</u>	<u>686,717</u>
Cash Flows From Non-Capital Financing Activities:		
Operating transfers - in (out)	<u>622,093</u>	<u>559,400</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of fixed assets	(1,865,247)	(709,008)
(Increase) decrease in restricted cash	1,881,102	251,084
Payments on general obligation bonds, loans and installment purchase payable	(857,649)	(824,697)
Interest paid on general obligation bonds, loans and installment purchase payable	(359,436)	(385,662)
Proceeds from issuance of general obligation bonds, loans and installment purchases	<u>50,000</u>	<u>165,000</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,151,230)</u>	<u>(1,503,283)</u>
Cash Flows From Investing Activities:		
Interest on investments	<u>91,305</u>	<u>201,244</u>
Net increase (decrease) in cash and cash equivalents	613,519	(55,922)
Cash and cash equivalents at beginning of year	<u>1,784,517</u>	<u>1,840,439</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,398,036</u></u>	<u><u>\$ 1,784,517</u></u>
Supplemental Schedule of Non Cash Financing Activities:		
Amortization of discount on refunded debt	<u>\$ 358</u>	<u>\$ 358</u>
Amortization of loss on refunded debt	<u>\$ 18,988</u>	<u>\$ 18,988</u>
Acquisition of fixed assets through contribution of capital	<u>\$ 1,004,997</u>	<u>\$ -</u>
Acquisition of fixed assets through transfer from other fund	<u>\$ 110,427</u>	<u>\$ -</u>

Water and Wastewater Fund Capital Projects
Water and Wastewater Capital Projects
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
From Inception and for the Year Ended June 30, 2002

	Project Authorization	Prior Years	Current Year	Total to Date
Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:				
Capital outlay - Eastern Ridge Subdivision	<u>37,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>37,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	(37,500)	-	-	-
Other Financing Sources (Uses):				
Transfer from Water and Wastewater Fund	<u>37,500</u>	<u>37,500</u>	<u>-</u>	<u>37,500</u>
Unexpended revenues and receipts	<u><u>\$ -</u></u>	<u><u>\$ 37,500</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 37,500</u></u>

Water and Wastewater Fund Capital Projects
Hwy 321/Hwy 10 Project
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
From Inception and for the Year Ended June 30, 2002

	Project Authorization	Prior Years	Current Year	Total to Date
Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:				
Design and engineering	250,000	168,109	51,346	219,455
Capital outlay	<u>1,791,400</u>	<u>202,255</u>	<u>1,670,335</u>	<u>1,872,590</u>
Total expenditures	<u>2,041,400</u>	<u>370,364</u>	<u>1,721,681</u>	<u>2,092,045</u>
Excess of revenues over (under) expenditures	(2,041,400)	(370,364)	(1,721,681)	(2,092,045)
Other Financing Sources (Uses):				
Transfer from Water and Wastewater Fund	<u>2,041,400</u>	<u>2,041,400</u>	<u>-</u>	<u>2,041,400</u>
Unexpended revenues and receipts	<u><u>\$ -</u></u>	<u><u>\$ 1,671,036</u></u>	<u><u>\$ (1,721,681)</u></u>	<u><u>\$ (50,645)</u></u>

CITY OF NEWTON, NORTH CAROLINA

Exhibit E-9

Electric Fund
Comparative Balance Sheets
June 30, 2002 and 2001

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Current assets:		
Cash and cash equivalents	\$ 2,047,117	\$ 2,702,772
Accounts receivable, net	793,044	664,271
Interest receivable	5,183	20,838
Due from other funds	402,368	402,368
Inventories	298,975	367,317
Restricted cash and cash equivalents	-	86,850
Total current assets	<u>3,546,688</u>	<u>4,244,415</u>
Fixed assets:		
Land and improvements	5,000	5,000
Buildings and improvements	500,567	500,567
Distribution system	8,188,762	7,619,244
Furniture and maintenance equipment	441,377	524,057
Vehicles	496,783	403,711
Construction-in-progress	208,866	86,515
Less accumulated depreciation	<u>(3,766,132)</u>	<u>(3,546,974)</u>
Fixed assets, net	<u>6,075,223</u>	<u>5,592,120</u>
Total assets	<u><u>\$ 9,621,911</u></u>	<u><u>\$ 9,836,535</u></u>
<u>Liabilities and Fund Equity</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 572,906	\$ 536,013
Customer deposits	102,246	107,688
Installment purchase payable - current	<u>404,709</u>	<u>370,485</u>
Total current liabilities	1,079,861	1,014,186
Noncurrent liabilities:		
Installment purchase payable	2,311,212	2,578,921
Accrued vacation pay	<u>27,480</u>	<u>29,716</u>
Total liabilities	<u>3,418,553</u>	<u>3,622,823</u>
Fund equity:		
Contributed capital	77,000	77,000
Retained earnings - unreserved	<u>6,126,357</u>	<u>6,136,712</u>
Total fund equity	<u>6,203,357</u>	<u>6,213,712</u>
Total liabilities and fund equity	<u><u>\$ 9,621,911</u></u>	<u><u>\$ 9,836,535</u></u>

Electric Fund
Schedule of Revenues, Expenditures and Supplemental Budget
Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2002

	2002		Variance	2001
	Budget	Actual	Favorable (Unfavorable)	Actual
Revenues:				
Operating revenues:				
Charges for services	\$ 8,039,100	\$ 7,907,121	\$ (131,979)	\$ 7,521,142
Other	<u>129,450</u>	<u>289,384</u>	<u>159,934</u>	<u>309,698</u>
Total operating revenues	<u>8,168,550</u>	<u>8,196,504</u>	<u>27,954</u>	<u>7,830,840</u>
Nonoperating revenues:				
Interest earned	59,800	67,841	8,041	186,971
Sales tax	<u>226,400</u>	<u>226,147</u>	<u>(253)</u>	<u>218,704</u>
Total nonoperating revenues	<u>286,200</u>	<u>293,987</u>	<u>7,787</u>	<u>405,676</u>
Total revenues	<u>8,454,750</u>	<u>8,490,492</u>	<u>35,742</u>	<u>8,236,516</u>
Expenditures:				
Power for resale	5,940,000	5,935,799	4,201	5,614,761
Operations	1,435,750	1,291,281	144,469	1,238,946
Administration	710,450	710,450	-	469,250
Contingency	3,000	-	3,000	-
Budgetary appropriations:				
Appropriated fund balance	(221,350)	-	(221,350)	-
Proceeds from borrowing	(137,000)	(137,000)	-	(100,000)
Debt principal	370,500	370,485	15	344,568
Interest	118,050	118,042	8	127,361
Capital outlay	453,600	305,605	147,995	8,813
Increase (decrease) in inventory	<u>-</u>	<u>(68,342)</u>	<u>68,342</u>	<u>101,998</u>
Total expenditures	<u>8,673,000</u>	<u>8,526,320</u>	<u>146,680</u>	<u>7,805,697</u>
Excess of revenues over (under) expenditures	<u>(218,250)</u>	<u>(35,829)</u>	<u>182,421</u>	<u>430,819</u>
Other financing sources (uses):				
Transfer from (to) Electric Capital Projects:				
Electric Capital Projects	254,350	254,350	-	(997,900)
Electric Peak Generators	-	-	-	349,206
Gain (loss) on disposal of fixed assets	<u>(36,100)</u>	<u>(36,078)</u>	<u>22</u>	<u>(74,684)</u>
Total other financing sources (uses)	<u>218,250</u>	<u>218,272</u>	<u>22</u>	<u>(723,378)</u>
Excess (deficiency) of revenues over (under) expenditures and other uses	<u>\$ -</u>	<u>182,443</u>	<u>\$ 182,443</u>	<u>(292,560)</u>

cont.

(With Comparative Actual Amounts for the Year Ended June 30, 2001)

Electric Fund
Schedule of Revenues, Expenditures and Supplemental Budget
Expenditures - Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2002
(With Comparative Actual Amounts for the Year Ended June 30, 2001)

	2002		
	Budget	Actual	Variance Favorable (Unfavorable)
			2001 Actual
Reconciliation of Modified Accrual to Full Accrual Basis - Add (Deduct):			
Cost of expenditures which were capitalized		\$ 305,605	\$ 8,813
Payment of debt principal		370,485	344,568
Decrease (increase) in accrued vacation		2,236	(3,041)
Increase (decrease) in inventory		(68,342)	101,998
Proceeds from borrowing		(137,000)	(100,000)
Depreciation		(411,432)	(380,294)
Transfer to Electric Capital Projects		<u>(254,350)</u>	<u>648,694</u>
Income (loss) before operating transfers (Exhibit D-2)		<u>\$ (10,355)</u>	<u>\$ 328,178</u>

NOTE: This schedule is included to show budgetary compliance with the legally adopted budget.

Electric Fund
Comparative Statements of Cash Flows
For the Years Ended June 30, 2002 and 2001

	2002	2001
Cash Flows From Operating Activities:		
Operating income (loss)	\$ (150,222)	\$ 124,548
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	411,435	380,294
Change in assets and liabilities:		
Accounts and interest receivable	(113,120)	109,991
Inventories	68,342	(101,998)
Accounts payable and accrued expenses	36,893	(173,412)
Customer deposits	(5,442)	(3,060)
Accrued vacation pay	<u>(2,236)</u>	<u>3,040</u>
Net cash provided by (used in) operating activities	<u>245,650</u>	<u>339,403</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(930,616)	(167,398)
Sales tax	226,147	218,704
Proceeds from disposal of fixed assets	-	3,702
(Increase) decrease in restricted cash	86,850	430,777
Principal paid on installment purchases	(370,485)	(344,568)
Interest paid on installment purchases	(118,042)	(127,361)
Proceeds from issuance of installment purchases	<u>137,000</u>	<u>100,000</u>
Net cash provided by (used in) capital and related financing activities	<u>(969,146)</u>	<u>113,856</u>
Cash Flows From Investing Activities:		
Interest on investments	<u>67,841</u>	<u>186,971</u>
Net increase (decrease) in cash and cash equivalents	(655,655)	640,230
Cash and cash equivalents at beginning of year	<u>2,702,772</u>	<u>2,062,542</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,047,117</u></u>	<u><u>\$ 2,702,772</u></u>
Supplemental Schedule of Non Cash Financing Activities:		
Decrease in fixed assets due to transfer to other fund	<u><u>\$ 45,726</u></u>	<u><u>\$ -</u></u>

Electric Fund Capital Projects
Electric Capital Projects
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
From Inception and for the Year Ended June 30, 2002

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:				
Capital outlay - Eastern Ridge Subdivision	55,000	-	5,593	5,593
Capital outlay - Olde St Paul/Winstead	185,850	70,944	114,906	185,850
Capital outlay - Prodelin*	<u>502,700</u>	<u>6,759</u>	<u>495,898</u>	<u>502,657</u>
Total expenditures	<u>743,550</u>	<u>77,702</u>	<u>616,398</u>	<u>694,100</u>
Excess of revenues over (under) expenditures	(743,550)	(77,702)	(616,398)	(694,100)
Other Financing Sources (Uses):				
Transfer from Electric Fund	<u>743,550</u>	<u>999,693</u>	<u>(254,350)</u>	<u>745,343</u>
Unexpended revenues and receipts	<u><u>\$ -</u></u>	<u><u>\$ 921,991</u></u>	<u><u>\$ (870,748)</u></u>	<u><u>\$ 51,243</u></u>

* Project complete at June 30, 2002.

INTERNAL SERVICE FUND

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis.

***Health Insurance Fund* - This fund is used to account for the payment of medical claims of the City's employees and their covered dependents.**

**Health Insurance Fund
Comparative Balance Sheets
June 30, 2002 and 2001**

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and cash equivalents	\$ 201,095	\$ 286,638
Cash with administrative agent	86,578	77,108
Interest receivable	<u>509</u>	<u>2,222</u>
Total assets	<u><u>\$ 288,181</u></u>	<u><u>\$ 365,968</u></u>
<u>Liabilities and Fund Equity</u>		
Current liabilities - accounts and insurance claims payable	\$ 234,222	\$ 218,892
Fund equity - retained earnings	<u>53,959</u>	<u>147,076</u>
Total liabilities and fund equity	<u><u>\$ 288,181</u></u>	<u><u>\$ 365,968</u></u>

Health Insurance Fund
Statement of Revenues and Expenses - Budget and Actual
For the Year Ended June 30, 2002
(With Comparative Actual Amounts for the Year Ended June 30, 2001)

	2002		Variance	2001
	Budget	Actual	Favorable (Unfavorable)	Actual
Operating Revenues:				
Contributions	<u>\$ 849,600</u>	<u>\$ 855,709</u>	<u>\$ 6,109</u>	<u>\$ 774,129</u>
Total operating revenues	<u>849,600</u>	<u>855,709</u>	<u>6,109</u>	<u>774,129</u>
Operating Expenses - Group Insurance:				
Claims paid	742,400	765,288	(22,888)	573,067
Claims incurred but not reported	-	(19,670)	19,670	38,031
Stop loss insurance fees	111,100	111,985	(885)	109,355
Administrative charges	96,100	96,870	(770)	94,595
Professional services	3,000	1,258	1,743	1,120
Telephone	<u>300</u>	<u>299</u>	<u>1</u>	<u>291</u>
Total operating expenses	<u>952,900</u>	<u>956,030</u>	<u>(3,130)</u>	<u>816,459</u>
Operating income (loss)	(103,300)	(100,321)	2,979	(42,330)
Nonoperating revenues:				
Fund balance appropriated	100,000	-	(100,000)	-
Investment earnings	<u>3,300</u>	<u>7,203</u>	<u>3,903</u>	<u>16,008</u>
Net income (loss)	<u>\$ -</u>	<u>\$ (93,117)</u>	<u>\$ (93,117)</u>	<u>\$ (26,322)</u>

NOTE: This schedule is included to show budgetary compliance with the legally adopted budget.

Health Insurance Fund
Comparative Statements of Cash Flows
For the Years Ended June 30, 2002 and 2001

	2002	2001
Cash Flows From Operating Activities:		
Operating income (loss)	\$ (100,321)	\$ (42,330)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Interest receivable	1,713	1,382
Accounts payable and insurance claims payable	<u>15,332</u>	<u>61,030</u>
Net cash provided by (used in) operating activities	<u>(83,276)</u>	<u>20,082</u>
Cash Flows From Investing Activities:		
Interest on investments	<u>7,203</u>	<u>16,008</u>
Net cash provided by (used in) investing activities	<u>7,203</u>	<u>16,008</u>
Net increase (decrease) in cash and cash equivalents	(76,073)	36,090
Cash and cash equivalents at beginning of year	<u>363,746</u>	<u>327,656</u>
Cash and cash equivalents at end of year	<u>\$ 287,673</u>	<u>\$ 363,746</u>

GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is used to account for the cost of fixed assets of the City that are used in the performance of general government functions and that are not accounted for in the Enterprise or Internal Service Funds of the City.



CITY OF NEWTON, NORTH CAROLINA

Exhibit G-1

General Fixed Assets Account Group
General Fixed Assets - By Function and Asset Type

Function	Land and Improvements	Buildings and Improvements	Vehicles and Heavy Equipment	All Other Equipment	Distribution	Construction In Progress	Total
General government	\$ 1,095,233	\$ 1,820,843	\$ 468,767	\$ 29,000	\$ -	\$ -	\$ 3,413,843
Public safety	56,077	1,188,375	2,633,657	-	-	-	3,878,109
Transportation	52,106	189,909	1,069,047	1,079,089	178,951	10,626	2,579,728
Environmental protection	-	-	782,377	-	-	-	782,377
Cultural and recreational	<u>363,015</u>	<u>1,845,337</u>	<u>416,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,625,131</u>
Total general fixed assets	<u>\$ 1,566,431</u>	<u>\$ 5,044,464</u>	<u>\$ 5,370,627</u>	<u>\$ 1,108,089</u>	<u>\$ 178,951</u>	<u>\$ 10,626</u>	<u>\$ 13,279,188</u>

June 30, 2002



OTHER SCHEDULES

**This section contains additional information required
on property taxes and transfers.**

- C Schedule of Ad Valorem Taxes Receivable**
 - C Analysis of Current Tax Levy**
 - C Schedules of Transfers**
-

CITY OF NEWTON, NORTH CAROLINA**Exhibit H-1****Schedule of Ad Valorem Taxes Receivable
June 30, 2002**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2001</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2002</u>
2001-2002	\$ -	\$3,646,444	\$3,492,863	\$ 153,581
2000-2001	138,928	-	67,288	71,640
1999-2000	32,168	-	7,415	24,753
1998-1999	25,138	-	2,434	22,704
1997-1998	13,667	-	911	12,756
1996-1997	2,496	-	76	2,421
1995-1996	2,147	-	4	2,143
1994-1995	2,085	-	4	2,081
1993-1994	2,233	-	4	2,230
1992-1993	3,562	-	75	3,487
1991-1992	<u>2,382</u>	<u>-</u>	<u>2,382</u>	<u>-</u>
Total	<u>\$ 224,807</u>	<u>\$3,646,444</u>	<u>\$3,573,455</u>	297,795
Less allowance for uncollectibles				<u>26,634</u>
Balance				<u>\$ 271,161</u>

Reconcilement with Revenue:

Taxes - Ad valorem - General Fund (Exhibit B-3)	\$3,581,664
Taxes written off	2,375
Refunds	5,303
Interest collected	<u>(15,887)</u>
Total collections and credits	<u>\$3,573,455</u>

CITY OF NEWTON, NORTH CAROLINA

Exhibit H-2

**Analysis of Current Tax Levy
June 30, 2002**

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$701,622,106	.47	\$3,297,624	\$3,297,624	\$ -
Motor vehicles taxed at prior and current year's rate					
Prior year	-	-	-	-	-
Current year	78,524,972	.47	370,453	-	370,453
MSD	13,772,524	.15	20,659	20,659	-
Penalties	<u>-</u>		<u>9,852</u>	<u>9,852</u>	<u>-</u>
Total	<u>793,919,602</u>		<u>3,698,588</u>	<u>3,328,135</u>	<u>370,453</u>
Discoveries:					
Current year taxes	1,465,725		6,885	6,885	-
Prior year taxes	615,819		2,625	2,625	-
MSD	16,644		25	25	-
Penalties	<u>-</u>		<u>992</u>	<u>992</u>	<u>-</u>
Total	<u>2,098,188</u>		<u>10,527</u>	<u>10,527</u>	<u>-</u>
Abateements:					
Property					
Current year	(10,839,072)		(50,944)	(50,944)	-
Prior year	(47,070)		(221)	(221)	-
Motor vehicles					
Current year	(1,193,634)		(5,610)	-	(5,610)
Current year	(271,667)		(1,299)	-	(1,299)
MSD	(173,120)		(260)	(260)	-
Penalties	<u>-</u>		<u>(4,337)</u>	<u>(4,337)</u>	<u>-</u>
Total	<u>(12,524,563)</u>		<u>(62,671)</u>	<u>(55,762)</u>	<u>(6,909)</u>
Total property valuation	<u>\$783,493,227</u>				
Net levy			3,646,444	3,282,900	363,544
Less uncollected taxes at June 30, 2002			<u>(153,581)</u>	<u>(85,637)</u>	<u>(67,943)</u>
Current year's taxes collected			<u>\$3,492,863</u>	<u>\$3,197,263</u>	<u>\$ 295,600</u>
Current levy collection percentage			<u>95.79%</u>	<u>97.39%</u>	<u>81.31%</u>

CITY OF NEWTON, NORTH CAROLINA**Exhibit H-3**

**Schedule of Transfers
June 30, 2002**

Interfund operating transfers for the year ended June 30, 2002 are as follows:

	Transfers From	Transfers To
General Fund:		
Water and Wastewater Fund	\$602,400	\$ -
Water and Wastewater Fund:		
Rowe Subdivision Infrastructure Project	-	19,418
Image Industries/Economic Development Project	-	275
General Fund	-	602,400
Special Revenue:		
Rowe Subdivision Infrastructure Project	19,418	-
Image Industries/Economic Development Project	275	-
Electric Fund:		
Electric Capital Projects	-	254,350
Capital Projects:		
Electric Capital Projects	<u>254,350</u>	<u>-</u>
	<u><u>\$876,443</u></u>	<u><u>\$876,443</u></u>

STATISTICAL SECTION

(Unaudited)

Schedules presented in the Statistical Section differ from financial statements because they usually cover more than one fiscal year and may present non-accounting data. The Statistical Section reflects social and economic data, financial trends and the fiscal capacity of the City.

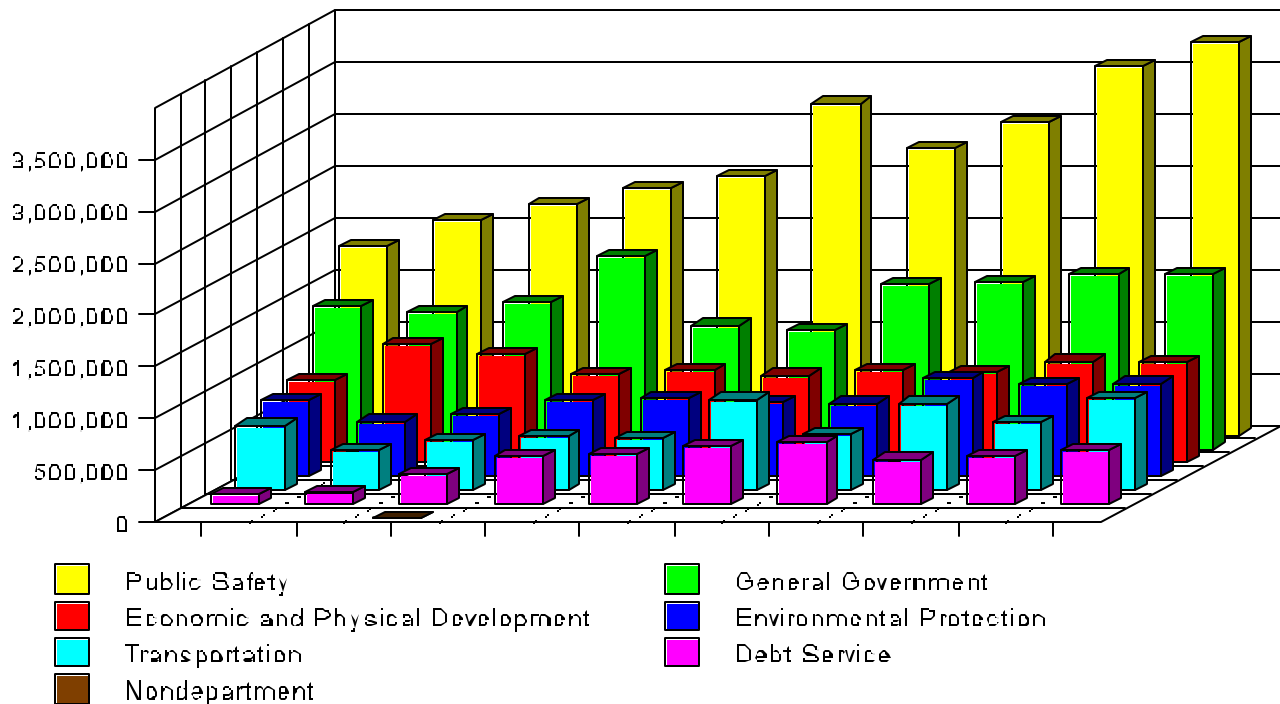


CITY OF NEWTON, NORTH CAROLINA

Table 1

General Fund Expenditures by Function Last Ten Fiscal Years (Unaudited)

Fiscal	Economic and							
Year Ended	General	Public		Environmental	Physical	Debt		
<u>June 30,</u>	<u>Government</u>	<u>Safety</u>	<u>Transportatio</u>	<u>Protection</u>	<u>Development</u>	<u>Service</u>	<u>Nondepartmental</u>	<u>Total</u>
2002	\$1,688,026	\$3,790,221	\$891,614	\$903,826	\$ 971,157	\$531,796	\$ -	\$8,776,641
2001	1,687,240	3,562,055	660,139	896,416	983,259	463,872	-	8,252,981
2000	1,603,108	3,015,908	843,089	958,177	873,938	437,072	-	7,731,292
1999	1,589,290	2,761,281	547,504	712,162	900,120	596,046	-	7,106,401
1998	1,140,597	3,200,564	883,344	716,326	848,730	562,032	-	7,351,593
1997	1,196,002	2,493,602	499,743	760,064	889,596	482,120	-	6,321,127
1996	1,856,536	2,377,710	526,439	736,454	853,436	468,843	-	6,819,418
1995	1,420,199	2,233,285	496,101	612,030	1,043,444	302,528	6,550	6,114,137
1994	1,319,733	2,070,314	399,621	537,633	1,145,254	116,300	-	5,588,855
1993	1,384,296	1,822,376	631,729	745,651	793,283	100,716	-	5,478,051



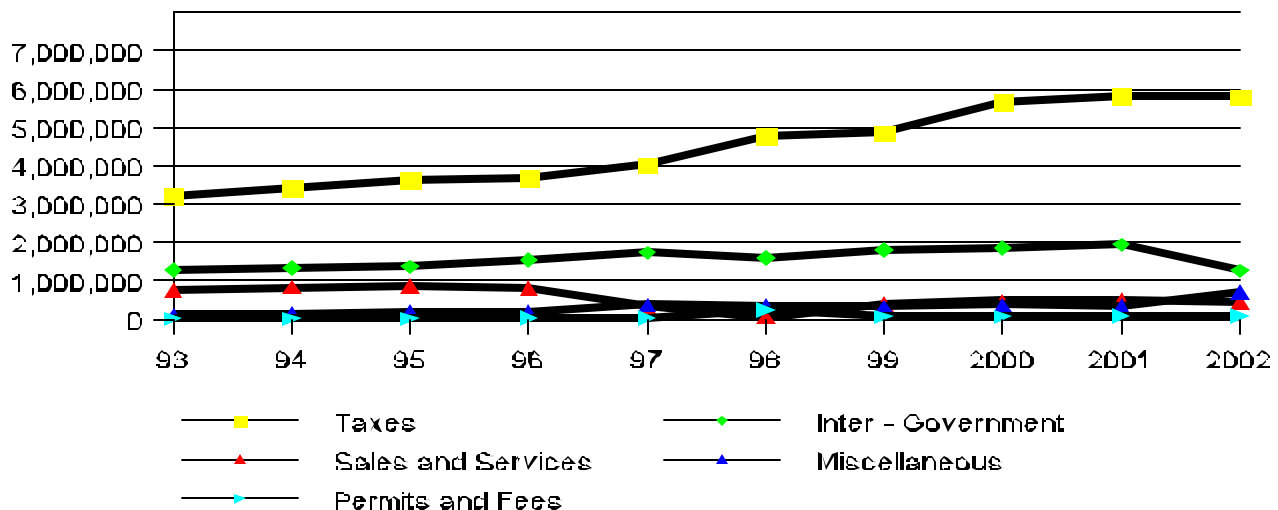
CITY OF NEWTON, NORTH CAROLINA

Table 2

General Fund Revenues by Source
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended June 30,	<u>Taxes</u>	<u>Inter- Governmen</u>	<u>Permits and Fees</u>	<u>Sales and Services</u>	<u>Miscellaneou (1)</u>	<u>Total</u>
2002	\$5,808,520	\$1,264,185	\$78,521	\$464,119	\$700,126	\$8,315,472
2001	5,822,108	1,950,598	80,322	498,049	351,379	8,702,457
2000	5,672,682	1,859,491	66,915	480,068	384,687	8,463,844
1999	4,857,020	1,795,960	63,170	396,372	322,868	7,435,390
1998	4,767,488	1,585,202	55,842	365,326	251,846	7,025,704
1997	4,030,576	1,734,834	50,064	361,001	374,268	6,550,743
1996	3,700,656	1,549,164	35,680	810,627	199,903	6,296,030
1995	3,632,223	1,374,920	18,663	854,670	181,632	6,062,108
1994	3,431,999	1,337,573	17,016	838,764	130,391	5,755,743
1993	3,204,669	1,306,471	15,271	772,359	118,403	5,417,173

(1) Includes investment earnings and other revenues.



CITY OF NEWTON, NORTH CAROLINA

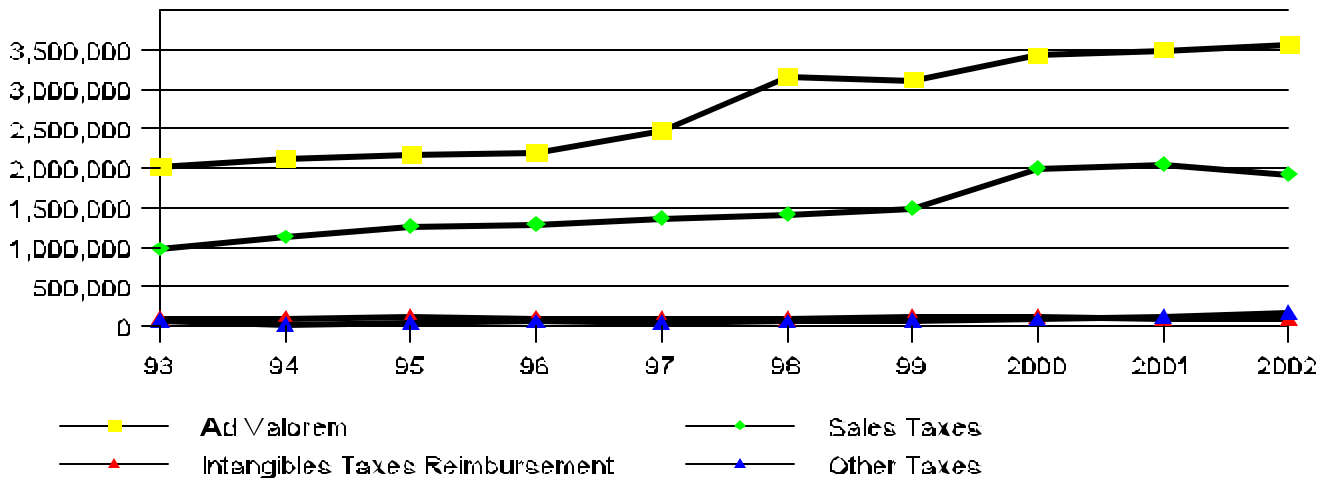
Table 3

General Fund Tax Revenues by Source (1)
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended June 30,	Ad Valorem Taxes (2)	Sales Taxes	Intangibles Taxes Reimbursemen	Other Taxes	Total
2002	\$3,581,664	\$1,925,725	\$116,001	\$185,130	\$5,808,520
2001	3,511,413	2,064,249	116,582	129,864	5,822,108
2000	3,437,581	2,009,034	129,734	96,334	5,672,683
1999	3,129,682	1,507,818	131,920	87,600	4,857,020
1998	3,173,529	1,413,273	112,411	68,275	4,767,488
1997	2,482,035	1,375,839	108,917	63,785	4,030,576
1996	2,208,115	1,305,693	117,988	68,860	3,700,656
1995	2,176,104	1,263,005	130,304	62,810	3,632,223
1994	2,139,060	1,133,368	118,649	40,922	3,431,999
1993	2,033,005	983,517	111,939	76,208	3,204,669

(1) General Fund only.

(2) Includes interest and penalties.

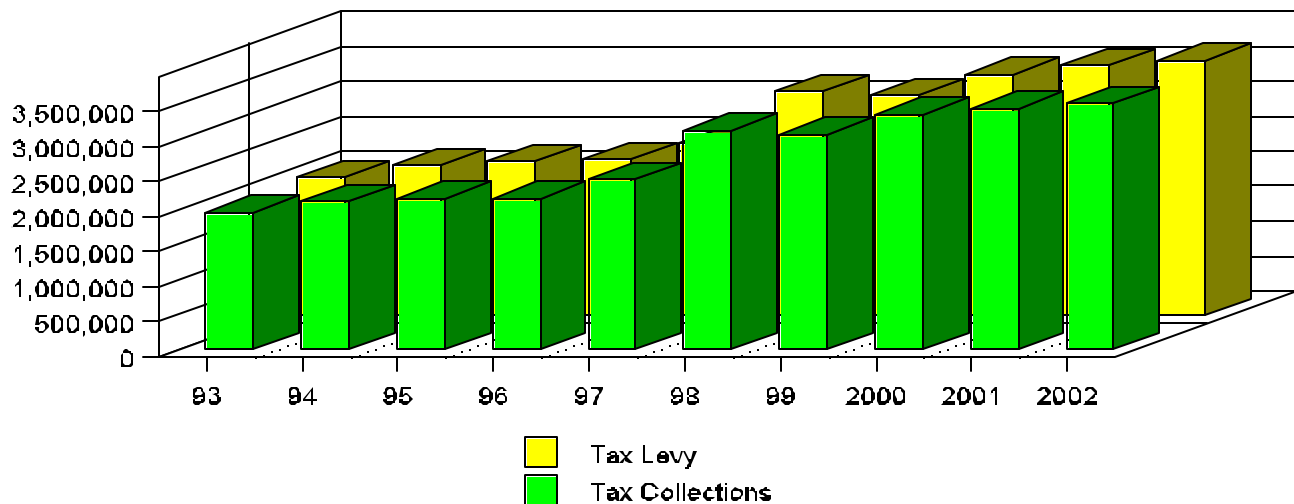


CITY OF NEWTON, NORTH CAROLINA

Table 4

Property Tax Levies and Collections and Credits Last Ten Fiscal Years (Unaudited)

Fiscal Year	Tax Year	Current Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Tax Collections as a Percent of Current Tax Levy	Outstanding Delinquent Taxes as a Percent of Current Tax Levy
							Percent of Current Tax Levy	Percent of Current Tax Levy
2001-2002	2001	\$3,646,444	\$3,492,863	95.79	\$80,592	\$3,573,455	98.00	8.17
2000-2001	2000	3,568,203	3,429,275	96.11	88,583	3,517,858	98.59	6.30
1999-2000	1999	3,446,185	3,349,761	97.20	73,965	3,423,726	99.35	5.06
1998-1999	1998	3,157,409	3,060,831	96.94	67,792	3,128,623	99.08	4.81
1997-1998	1997	3,195,705	3,120,088	97.63	54,823	3,174,911	99.35	3.86
1996-1997	1996	2,469,862	2,406,346	97.43	71,220	2,477,566	100.31	4.15
1995-1996	1995	2,225,549	2,145,127	96.39	72,388	2,217,515	99.64	4.95
1994-1995	1994	2,206,818	2,146,248	97.26	28,362	2,174,610	98.54	40.62
1993-1994	1993	2,158,750	2,110,837	97.78	21,633	2,132,470	98.79	3.23
1992-1993	1992	1,971,460	1,949,509	98.89	81,025	2,030,534	102.99	2.21



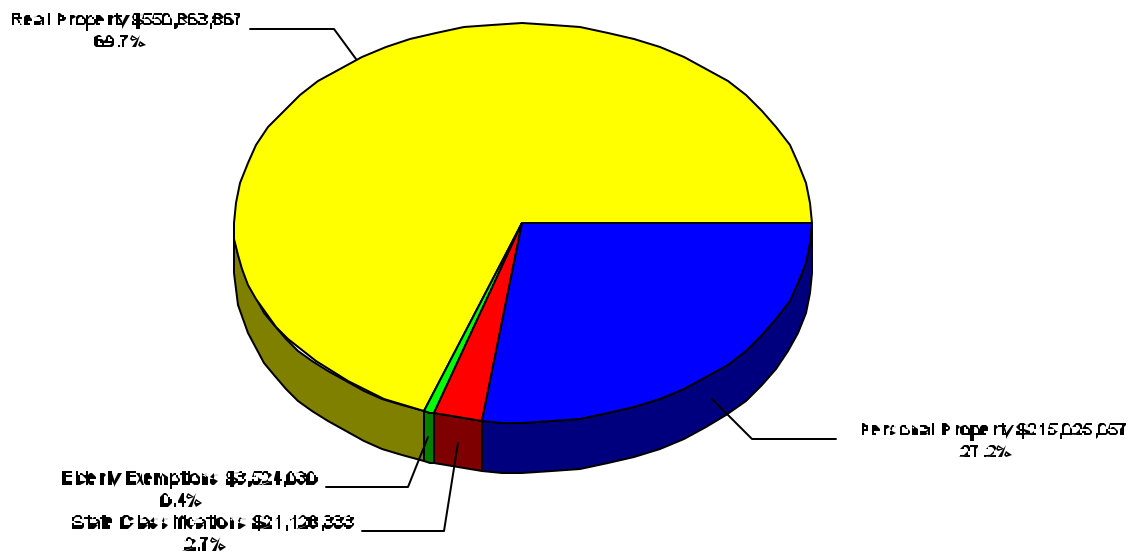
Source: City of Newton Finance Department

CITY OF NEWTON, NORTH CAROLINA

Table 5

Assessed Valuation of Property
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended June 30,	<u>Real Property</u>	<u>Personal Property</u>	<u>State Classifications</u>	<u>Less Elderly Exemptions</u>	<u>Total</u>
2002	\$550,863,867	\$215,025,057	\$21,128,333	\$3,524,030	\$783,493,227
2001	540,042,867	210,526,662	19,299,454	3,429,630	766,439,353
2000	524,605,828	197,332,486	19,375,934	3,210,204	738,104,045
1999	393,057,917	188,302,558	14,741,548	3,121,837	592,980,186
1998	385,954,156	203,396,570	15,423,427	3,274,368	601,499,785
1997	380,174,927	188,630,649	14,833,074	2,670,528	580,968,122
1996	371,173,825	181,059,203	13,905,354	2,890,158	563,248,224
1995	367,829,788	180,492,153	13,559,582	2,834,200	559,047,323
1994	353,124,247	178,901,525	13,597,405	2,602,888	543,020,289
1993	353,748,515	154,878,654	12,400,870	2,770,850	518,257,189



Source: City of Newton Finance Department

CITY OF NEWTON, NORTH CAROLINA**Table 6****Property Tax Levies and Rates - Direct and Overlapping Governments
Last Ten Fiscal Years
(Unaudited)**

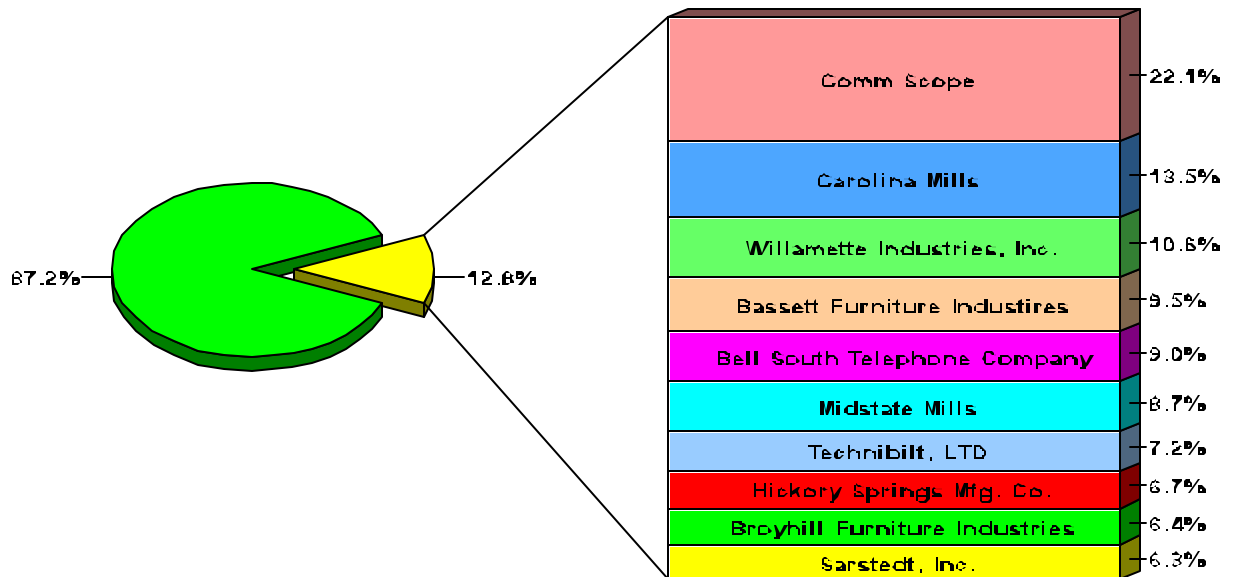
	<u>City of Newton</u>		<u>Catawba County (1)</u>	
	<u>Tax Levies</u>	<u>Tax Rates (2)</u>	<u>Tax Levies</u>	<u>Tax Rates (2)</u>
2001-2002	\$3,646,444	\$.47	\$55,392,904	\$.495
2000-2001	3,568,203	.47	53,320,741	.495
1999-2000	3,446,185	.47	51,194,773	.495
1998-1999	3,157,409	.54	42,661,784	.55
1997-1998	3,195,705	.54	38,870,411	.55
1996-1997	2,469,862	.43	37,887,197	.52
1995-1996	2,225,549	.40	33,664,697	.52
1994-1995	2,206,818	.40	29,570,920	.47
1993-1994	2,158,750	.40	31,866,601	.47
1992-1993	1,971,460	.38	28,240,644	.44

(1) Source: Catawba County

(2) Per \$100.00 of assessed valuation

Principal Taxpayers
For the Year Ended June 30, 2001
(Unaudited)

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Tax Levy</u>	<u>Percentage of City Tax Levy</u>
Comm Scope, Inc.	Fiber	\$ 25,444,079	\$119,587	3.28%
Carolina Mills	Textiles	15,543,174	73,053	2.00%
Willamette Industries, Inc.	Paper Products	12,213,115	57,402	1.57%
Bassett Furniture Industries	Furniture Mfg.	10,993,550	51,670	1.42%
Bell South Telephone Company	Utility	10,413,747	48,945	1.34%
Midstate Mills	Flour Mill	10,027,090	47,127	1.29%
Technibilt, Ltd.	Mfg of Shopping Carts	8,272,950	38,883	1.07%
Hickory Springs Mfg. Co.	Foam Manufacturer	7,679,002	36,091	0.99%
Broyhill Furniture Industries	Furniture Mfg.	7,369,092	34,635	0.95%
Sarstedt, Inc.	Pharmaceutical Plastic	<u>7,253,005</u>	<u>34,089</u>	<u>0.93%</u>
Total assessed valuation of top ten taxpayers		<u>\$115,208,804</u>	<u>\$541,481</u>	<u>14.85%</u>



Source: City of Newton Finance Department

Computation of Legal Debt Margin
June 30, 2002
(Unaudited)

Assessed Valuation:

Total value	\$787,017,257
Less elderly exemptions	<u>3,524,030</u>
Total assessed value	<u><u>\$783,493,227</u></u>

Legal Debt Margin:

Debt limitation - 8 percent of total assessed value	\$62,679,458
Debt application to limitation:	
Bonded debt	\$4,440,000
Loans payable	415,659
Installment purchase payable	<u>7,620,439</u>
Total debt applicable to limitation	<u>12,476,098</u>
Legal debt margin	<u><u>\$ 50,203,360</u></u>

CITY OF NEWTON, NORTH CAROLINA

Table 9

**Ratio of Net General Obligation Bonded Debt to Assessed Value and
Net General Obligation Bonded Debt Per Capita
Last Ten Fiscal Years
(Unaudited)**

Fiscal				Debt	Debt		Ratio of	
Year		Assessed	Gross	Service	Payable	Net	Net	Net
<u>June 30,</u>	<u>Population</u>	<u>Value</u>	<u>Bonded</u>	<u>Monies</u>	<u>From</u>	<u>Bonded</u>	<u>Debt to</u>	<u>Bonded</u>
			<u>Debt (2)</u>	<u>Available</u>	<u>Enterprise</u>	<u>Debt</u>	<u>Assessed</u>	<u>Debt per</u>
					<u>Revenues</u>		<u>Value</u>	<u>Capita</u>
2002	12,978	\$783,493,227	\$4,440,000	\$ -	\$4,110,610	\$329,390	.04	25
2001	12,560	766,439,353	4,980,000	-	4,598,428	381,572	.05	30
2000	12,382	738,104,045	5,525,000	-	5,090,611	434,389	.06	35
1999	12,294	592,980,186	6,150,000	-	5,653,789	496,211	.08	40
1998	12,079	601,499,785	6,450,000	-	5,888,731	561,269	.09	46
1997	11,731	580,968,122	7,080,000	-	6,436,055	643,945	.11	55
1996	12,005	563,248,224	7,675,000	-	6,971,830	703,170	.12	59
1995	11,800	559,047,323	8,270,000	-	7,526,619	743,381	.13	63
1994	11,578	543,020,289	8,865,000	-	8,081,361	783,639	.14	68
1993	11,158	518,257,189	9,410,000	-	8,556,762	853,238	.16	76

(1) Source: North Carolina Office of State Planning

(2) Includes all general obligation debt.

CITY OF NEWTON, NORTH CAROLINA

Table 10

**Ratio of Annual Debt Service Expenditures for
General Obligation Bonded
Debt to Total General Governmental Expenditures
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year					Ratio Debt Service to Total General Governmental
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service (1)</u>	<u>Total General Governmental Expenditures</u>	<u>Expenditures</u>
2002	\$50,660	\$14,952	\$ 65,612	\$9,011,096	0.73%
2001	52,817	19,941	72,758	8,660,669	0.84%
2000	61,822	22,221	84,043	7,731,292	1.09%
1999	81,409	32,891	114,300	7,106,402	1.61%
1998	82,676	34,516	117,192	7,351,593	1.59
1997	59,225	37,718	96,943	6,321,127	1.53
1996	40,210	40,300	80,510	6,819,418	1.18
1995	40,258	42,270	82,528	6,114,137	1.35
1994	69,600	46,700	116,300	5,588,855	2.08
1993	50,000	50,716	100,716	5,426,153	1.86

(1) General obligation bonds reported in the enterprise funds have been excluded.

(2) Includes General, Special Revenue, and Capital Projects Funds.

CITY OF NEWTON, NORTH CAROLINA**Table 11**

**Computation of Direct and Overlapping Bonded Debt
- General Obligation Bonds
June 30, 2002
(Unaudited)**

	Net General Obligation Bonded Debt <u>Outstanding</u>	Percentage Applicable to <u>City of Newton (3)</u>	Amount Applicable to <u>City of Newton</u>
Direct - City of Newton (1)	\$ 329,389	100.00%	\$ 329,389
Overlapping - Catawba County (2)	<u>69,650,000</u>	7.01%	<u>4,882,516</u>
Total	<u>\$69,979,389</u>		<u>\$5,211,905</u>

- Source:
- (1) Excluding general obligation bonds reported in the enterprise funds.
 - (2) Provided by Catawba County.
 - (3) Determined by ratio of assessed valuation of property subject to taxation in Catawba County (\$11,176,676,254) and City of Newton (\$783,493,227).

CITY OF NEWTON, NORTH CAROLINA**Table 12****Demographic Statistics
Last Ten Fiscal Years
(Unaudited)**

<u>Fiscal Year Ended June 30,</u>	<u>Population Estimate (1)</u>	Catawba County	<u>Unemployment Rate (2)</u>
		<u>Per Capita Income (2)</u>	
2002	12,978	\$27,937	6.7%
2001	12,560	28,253	6.4%
2000	12,382	27,617	2.1%
1999	12,294	26,282	1.8%
1998	12,079	24,602	2.7%
1997	11,731	23,439	3.4%
1996	12,005	23,480	4.9%
1995	11,800	22,672	4.6%
1994	11,578	21,739	3.7%
1993	11,158	20,718	5.2%

Sources: (1) North Carolina of State Planning

(2) Employment Security Commission, Bureau of Labor Statistics, North Carolina Bureau of Economics.

CITY OF NEWTON, NORTH CAROLINA**Table 13****Property Value, Construction and Bank Deposits
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year June 30,	Property Value (1)	Construction (2)	Bank Deposits (3)	Countywide Deposits (4)
2002	\$783,493,227	\$10,534,606	\$14,037,040	\$ -
2001	766,439,353	14,129,179	18,612,279	1,985,835,000
2000	738,104,045	16,914,714	18,036,026	1,818,514,000
1999	592,980,186	17,577,937	17,927,752	1,692,209,000
1998	601,499,785	12,579,888	17,367,165	1,641,549,000
1997	580,968,122	15,786,215	18,614,942	1,584,000,000
1996	563,248,224	12,181,279	21,660,101	1,509,745,000
1995	559,047,323	20,578,587	17,313,665	1,465,517,000
1994	543,020,289	7,472,683	12,886,079	1,275,842,000
1993	518,257,189	7,790,676	14,084,235	1,235,098,000

Sources: (1) City tax records.

(2) City Planning Department.

(3) City of Newton deposits only.

(4) Countywide deposits per FDIC. Countywide deposits data not available for 2002.

Miscellaneous Statistics
June 30, 2002
(Unaudited)

Population	12,978
Date of incorporation	1855
Form of government	Council/Manager
Area	12.98 square miles
Miles of paved streets	71.83
Employees:	
Full-time	172
Part-time	6
Seasonal	17
Reserve	16
Fire protection:	
Number of stations	3
Number of firemen and officers	16
Number of Volunteer firemen	40
Police protection:	
Number of stations	2
Number of policemen and officers	35
Electric department:	
Number of consumers	4,411
Average daily usage	303,412 kwh
Miles of distribution lines	105
Water department:	
Number of consumers	5,556
Average daily consumption	3.5 MGD
Miles of water mains	115
Sewers:	
Number of consumers	4,447
Average daily inflow	3.4 MGD
Miles of sewer lines	105
Culture and recreation:	
Number of recreation centers	2
Number of parks	5
Park acreage	63.5
Number of swimming pools	1
Number of tennis courts	8
Number of cemeteries	2

COMPLIANCE SECTION

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards**

**Report on Compliance with Requirements Applicable
to each Major State Program and Internal Control
Over Compliance in Accordance with Applicable Sections
of OMB Circular A-133 and the State Single Audit
Implementation Act**

Schedule of Findings and Questioned Costs

Corrective Action Plan

Summary Schedule of Prior Year Audit Findings

Schedule of Expenditures of Federal and State Awards



Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Honorable Mayor and
Members of the Board of Aldermen
City of Newton, North Carolina

We have audited the general purpose financial statements of the City of Newton, North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Newton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items 2002-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Newton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the Board of Aldermen, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

September 10, 2002

Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 N. Sterling Street
Morganton, North Carolina 28655
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Fax: (828) 433-1230

**Report on Compliance with Requirements Applicable to each Major State Program
and Internal Control Over Compliance in Accordance with Applicable Sections of OMB
Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and
Members of the Board of Aldermen
City of Newton, North Carolina

Compliance

We have audited the compliance of the City of Newton, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2002. The City of Newton's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Newton's management. Our responsibility is to express an opinion on the City of Newton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the Audit Manual for Government Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Newton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Newton's compliance with those requirements.

In our opinion, the City of Newton complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the City of Newton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Newton's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major State Program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the Board of Aldermen, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

September 10, 2002

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002**

Section I. Summary of Auditors' ResultsFinancial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- C Material weakness(es) identified? _____yes X no
- C Reportable condition(s) identified that are
not considered to be material weaknesses X yes _____none reported
- Noncompliance material to financial
statements noted _____yes X no

Federal Awards

None.

State Awards

Internal control over major State programs:

- C Material weakness(es) identified: _____yes X no
- C Reportable condition(s) identified that are
not considered to be material weaknesses _____yes X none reported
- Noncompliance material to State awards _____yes X no

Type of auditors' report issued on compliance for major State programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with the State
Single Audit Implementation Act

_____yes X no

Identification of major State programs:

Program Name

Powell Bill

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2002

Section II. Financial Statement Findings

REPORTABLE CONDITION

Finding: 2002-1

Criteria:	G.S. 159-8(a) states that all moneys received and expended by a local government or public authority should be included in the budget ordinance.
Condition:	City of Newton expended \$3,130 more for health insurance operating expenses, \$18,682 more for water and wastewater debt service and \$166,521 more for public safety than appropriated in the annual budget ordinance.
Effect:	Moneys were spent that had not been appropriated.
Cause:	The City expended Funds that had not been budgeted for in the budget ordinance. A budget amendment was adopted for the health insurance fund, however, the budget amendment was based upon estimated operating expenses at the time of the amendment and due to additional and unexpected medical claims at year end, the amendment was insufficient to cover the additional expenses. During the current year the Startown Volunteer Fire Department merged with the City's fire department. The assets of the Startown Volunteer Fire Department were donated to the City. The donation of these assets was shown as a contribution and as a capital outlay expenditure. A budget amendment was not adopted for the donation of these assets, thus resulting in an excess of expenditures over appropriations.
Recommendation:	Budget amendments should be adopted when revenues are received that exceed estimated revenues in the budget ordinance prior to expending the funds.
Management Response:	The City agrees with this finding. Budget amendments will be adopted prior to making expenditures that exceed budgeted amounts.

Section III. Federal Award Findings and Questioned Costs

None reported.

Section IV. State Award Findings and Questioned Costs

None reported.

**Corrective Action Plan
For the Year Ended June 30, 2002**

Section II. Financial Statement Findings

Finding: 2002-1

Name of Contact Person: James A. Baker, Director of Finance

Corrective Action: The budget-to actual report will be reviewed on a periodic basis and amendments will be made as necessary.

Proposed Completion Date: The City will implement the above procedure immediately.

Section III. Federal Award Findings and Questioned Costs

None reported.

Section IV. State Award Findings and Questioned Costs

None reported.

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2002**

Finding: 99-2

Status: Expenditures exceeded the budget in the current year. When the City intends to expend funds in excess of amounts budgeted, it will properly amend the budget.

Finding: 2000-1

Status: Expenditures exceeded the budget in the current year. When the City intends to expend funds in excess of amounts budgeted, it will properly amend the budget.

Finding: 2001-01

Status: Expenditures exceeded the budget in the current year. When the City intends to expend funds in excess of amounts budgeted, it will properly amend the budget.

Finding: 2000-2

Status: Corrected.

Finding: 2001-2

Status: Expenditures exceeded the budget in the current year. When the City intends to expend funds in excess of amounts budgeted, it will properly amend the budget.

**Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2002**

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Federal (Direct and Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<u>Federal Grants:</u>					
Cash Programs					
<u>U.S. Department of Housing and Urban Development</u>					
Passed-through N.C. Department of Commerce:					
Community Development Block Grant-State's Program	14.228	XXXX	\$223,829	\$ -	\$
<u>U.S. Department of Justice</u>					
Office of Community Oriented Policing Services:					
Public Safety Partnerships and Community Policing Grant	16.710		9,767	-	1,085
Local Law Enforcement Block Grant	16.592		9,742	-	-
Bullet Proof Vest Grant	16.607		<u>1,027</u>	<u>-</u>	<u>514</u>
Total assistance - federal programs			<u>244,365</u>	<u>-</u>	<u>1,599</u>
<u>State Grants:</u>					
Cash Assistance					
<u>N.C. Department of Transportation</u>					
Powell Bill		XXXX	-	686,209	-
Bicycle Helmets		XXXX	-	1,400	-
<u>N.C. Department of Environmental and Natural Resources</u>					
Soil Erosion and Sediment Control		XXXX	<u>-</u>	<u>13,778</u>	<u>-</u>
Total assistance - State programs			<u>-</u>	<u>701,387</u>	<u>-</u>
Total assistance			<u>\$244,365</u>	<u>\$701,387</u>	<u>\$1,599</u>

Note to the Schedule of Expenditures of Federal and State Financial Awards:

- The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the City of Newton and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.